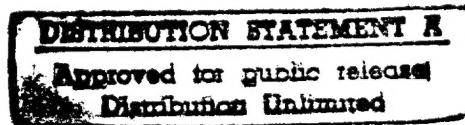


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# ***JPRS Report***

## **China**



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# China

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## NATIONAL AFFAIRS, POLICY

### Economist Dai Yuanchen on Savings, Investment 93CE0048B Beijing JINRONG SHIBAO in Chinese 5 Oct 92 p 3

[Article by Dai Yuanchen (2071 0954 2525): "Speeding Up Development and Change Types of Savings"]

[Text] In his southern tour speech, Comrade Deng Xiaoping told us that development was the hard truth. For a big socialist nation like ours, it is essential that we seize the opportunity to develop, striving to climb one step every few years. People say, wealth speaks louder. Only when our economy grows substantially, comprehensive national strength increases, and people's living standards constantly improves can we claim the superiority of our system. Currently, development in surrounding countries and regions is strong. It is projected that their average annual economic growth rate between 1990 and 1994 will be: 6.1 percent for Singapore, 8 percent for Thailand, 7 percent for Malaysia, 7.3 percent for South Korea, 5.9 percent for Indonesia, and 7.1 percent for Taiwan. If our development rate is slower than theirs, a comparison after a few years will show a relatively big gap. If we speed up reform and opening up to surpass the economic growth of the "four dragons," increase the national strength, and have the people gain some real benefits, it will serve as convincing evidence of our strength, and people will love such socialism of reform and development.

Fast development requires accumulation and investment. In the past process of economic development there used to be the malpractice of high accumulation. The outcome, however, did not lead to fast development. At the beginning of reform and opening up, there was a discussion forum on the objective of socialist production. The forum pointed out that during the previous 20 years, the economy had developed to a certain extent under the principle of skewed pursuit of increase in production and output value, ignored substantial results, carried on construction with tightened belts, people had little real gain, and was considered to have violated the objective of socialist production. At that time, the point was raised of adjusting the ratio between accumulation and consumption even at the expense of slower economic growth. The suggestion took great determination and sufficient courage to cut the 33 percent of accumulation down to about 25 percent.

It is true that there is a certain amount of national income every year used to increase accumulation, which reduces the amount for consumption. That year, individual income was taken away for the sake of high accumulation. Now, we have to sort out the relationship between national construction and people's life in a reasonable way. It is justifiable to argue for a lower rate of accumulation. The suggestion provides ground for macro-level strategies and regulations on raising purchasing prices of major agricultural produce of grain,

cotton and edible oil, and raising employees' pay and other measures, and further backs up strategies and regulations on a series of measures to improve people's life. But dynamically, increase in urban and rural income and in consumption made a respective drop of accumulation rate to 28.3 percent, 28.8 percent, and 29.7 percent from 1981 to 1983. Since then, the income of urban and rural residents has continued to grow, and the absolute amount of consumption has increased, yet deposits have grown faster, which kept the accumulation rate at 34 percent or more during the eight years between 1984 and 1991, with little difference in comparison with the past. The people, on the other hand, have gained some real benefits, income increased, consumption grew, which in turn promoted high economic growth.

The outcome of the past few years' practice indicated that the real change has been a transmission of government accumulation to social accumulation. Previously, the only source of funds for construction was from the government treasury. To carry on construction, individual income had to be cut down, and so did consumption. People's belts were tightened fast. Such mode of government accumulation warranted a circulation of consumption and production only at a low level. The contradiction between accumulation and consumption was prominent. Later, reform and opening up increased individual income. Higher consumption of food and necessities has still left a cash surplus. The surplus then turns into accumulation through deposit. Such social accumulation practice makes the accumulation rate grow, and the expansion of consumption gets rid of the low-level circulation between consumption and production. Therefore, the ratio between accumulation and consumption has changed little. Viewed dynamically, however, production, distribution, and consumption have entered a healthy cycle, which has promoted economic development.

During the change of accumulation mode, there used to be some theoretical debates. More discussions were specially directed at the change in the goals and function of banks, which became the medium for social accumulation. After studying Comrade Deng Xiaoping's speech, however, I felt that previous discussions were not sufficient. Those discussions did not go deep enough in regard to the points that we should not worry about individual wealth, that economic construction should not mean tightening belts, that production should be driven by consumption, and consumption should be the function of income. Discussions were far short on these aspects as related to banks. In fact, it is precisely because of the change of accumulation mode that the function of banking turns out to be particularly important.

### Current Economic Theory Must Address Eight Issues

93CE0067A Beijing JINGJI CANKAO BAO in Chinese  
23 Sep 92 p 4

[Article by He Jiawu of People's Construction Bank of China: "Eight Issues in Current Economic Theory"]

**[Text] 1. Is Socialism Absolutely Antagonistic With Capitalism?**

In theoretical studies during the past two years, there seemed to be a tendency to set socialism dead against capitalism. It seems that except for matters of technical nature, whatever is capitalist is harmful to socialism. This concept is the background of the leftist theory that "in doing everything, we must first of all essentially distinguish what is socialist from what is capitalist." The socialist society, a dialectical negative and opposite aspect of the capitalist society, emerges from the womb of capitalism. It has an inexorable relation of succession to capitalism. Socialism and capitalism share many things in common in the economic, ideological and cultural realms. Severing the ties between socialism and capitalism, negating the study of capitalism by socialism, and setting socialism dead against capitalism do not accord with Marxism.

**2. Can Commodity Economy Be Isolated From Market Economy?**

Comrade Deng Xiaoping's recent instruction that a planned economy is not socialism, and that a market economy is not capitalism has broken the shackle in solving the problem on the relation between the development of commodity economy and that of market economy. China's economy is a planned commodity economy. In fact, it is a market economy under the control of the state. From the static point of view, it is a commodity economy with commodities and commodity production as its cells. From the dynamic point of view, it is a market economy with market exchanges as its essence, market regulation as its law, and market competition as its motive force. To eliminate the concept of isolating commodity economy from market economy, and develop the concept of the socialist market economy is of great significance in helping us correctly understand the rules and regulations for the development of commodity economy, recognize the general trend in improving the economic system, seize the initiative in carrying out reform, and do a still better job in opening ourselves to the outside world.

**3. Is Ownership System Reform Sneak Privatization?**

Reforming the ownership system for public assets; handling well the relation with regard to the ownership of state assets; establishing an ownership system for enterprise assets which is compatible with the status of an enterprise as an independent commodity producer; and implementing new public ownership systems in state-run large and medium-sized enterprises to let legal persons hold shares and workers and staff members become shareholders are undoubtedly useful explorations for building socialism with Chinese characteristics. However, during a certain period of time, such explorations were branded "sneak privatization." Some people even believed that such explorations constituted a "grave danger which could bring about peaceful evolution." This kind of leftist thought has seriously hampered the

profound study on reforming the ownership system, made such study and plans on the reform lag far behind reality, and cause difficulties in carrying out such reform. There is no definite pattern for socialism, and the public ownership system is not merely a state-ownership system. Under the conditions of socialized mass production, it is hard for pure privately owned producer goods to exist. It is also difficult for privately owned properties to completely detach themselves from the forces of socialized mass production under capitalist conditions. We should deal with the issue of ownership system with a new approach.

**4. Is It Necessary To Advocate Public Ownership Without Exception Under Socialist Economy?**

Even now, people still generally believe that measures to enforce the output-related system of contracted responsibilities, develop the Chinese-foreign joint ventures and cooperative and wholly foreign-funded enterprises, implement the shareholding system, and promote the private economy are only temporary. Eventually they will transit to the public-owned economy. Now is the time to clarify this erroneous thinking dominated by traditional concepts. We should treat the nature of producer goods of different ownership on the basis of the Marxist theory that an ownership system is the sum total of production relations. Determined by the macroeconomic system which occupies a dominant position in a country, an ownership system is the sum total of the people's relation in the course of producing, distributing, exchanging and consuming material resources. This production relation which occupies a dominant position is like a strong magnet field. All producer goods of different ownership will be "magnetized" by this production relation. In a society where the socialist production relation occupies a dominant position, foreign capital and privately owned producer goods can only subordinate themselves to the socialist economic system. They are tainted with the nature of the socialist economy. It is unnecessary to advocate public ownership in all instances under socialist economy. We should recognize this conclusion which conforms with the basic theories of Marxism.

**5. Has Rural Collective Economy Collapsed?**

When the original form designed to develop the rural collective economy by organizing people's communes which must "be large in size and collective in nature and integrating government administration with commune management" failed, it was replaced by the another form where individual peasants assume sole responsibilities for production with remuneration linked to output. Also, there emerged a tendency of gradually forming new associations on a voluntary basis. This is an issue of reorganizing and developing the rural collective economy in a new form. It cannot be interpreted as the total collapse of the rural collective economy. Meanwhile, the total output value of the rural collective economy with rural enterprises as the main body already accounts for approximately 35 percent of the total

national industrial output value. This shows that in general the rural collective economy has been greatly expanded instead of weakened. Still less has it collapsed. As for the collective economy in some backward areas, it is not well developed in the first place. Some of the collective assets originally knocked together no longer exist. We cannot say that this symptom reflects the collapse of the collective economy. Naturally all these are issues that we must earnestly tackle. However, we cannot draw a conclusion that China's rural collective has collapsed or become an "empty shell." Still less should we waver or negate the contract system of responsibility linked to production output.

#### 6. Can National Economy Be Smoothly Developed?

In light of the sharp economic changes in the past several years, the state has followed a principle of developing the national economy in a sustained, stable and coordinated way. This principle is of great significance in guarding against violent fluctuations in the economic sphere. However, during a certain period of time, there exists a tendency to implement this principle to the extreme, believing that economy can be developed forever in a sustained, stable and coordinated way, that such development will be a smooth curve and that any fluctuation means errors. When economic growth is slightly faster, some people regard such growth as a sign of "overheating." When the speed of economic growth drops, they again cry out in alarm "landslide." In fact, there is no nation in the world that can possibly avoid periodic economic fluctuations. To maintain a nation's economic development forever in sustained, stable and coordinated way is only a fantasy. In conducting economic studies and carrying out economic management, naturally we must pay attention to the issue of maintaining balance and improving coordination in developing the economy, but more important is the fact that we must foster the concept of maintaining a dynamic balance.

#### 7. Can Investment and Consumption Cause Double Inflation?

Around 1988, there was a sign of panic buying and comparatively high price index in China for a time. Actually, there were complex economic reasons and social psychological factors for this. However, many comrades in the realm of economic theoretical studies simply regarded this sign as inflation, summed it up as "double inflation caused by investment and consumption," and used it as the basis for making the overall policy decision at that time to simultaneously suppress investment and consumption. Investment in China mainly refers to investment in fixed assets. The main source of investment comes from accumulation funds. To say that double inflation is caused by investment and consumption essentially means double inflation of the accumulation fund and the consumption fund. First, this theory is not logical, nor is it tenable. National income represents a definite quantity in a definite period. As its two component parts, the accumulation fund and the consumption fund only depend on each other for their

growth and decline. Our experience shows that the policy of simultaneously suppressing investment and consumption merely led to double slump on the investment market and the consumer goods market, which lasted as long as two years. All this indicates that the theory on double inflation caused by investment and consumption is unscientific.

#### 8. Is There Excessive Consumption Now?

"Excessive consumption" is a viewpoint with profound influence. However, comrades who believe that consumption is excessive now fail to provide a scientific foundation for such a concept. Mainly they have two arguments: (1) The growth rate of consumption has exceeded that of the national income in most of the years following reform. Therefore, consumption is excessive. (2) The percentage of people who own major home appliances in China exceeds that of those in Western developed countries with the equivalent national product on a per-capita basis. Therefore, it is a typical case of living beyond one's means. Although, figures are available to substantiate such views, it is still hard to say that this represents a scientific analysis. According to general theories in economics, consumption is opposite to production. Thus, as far as a nation is concerned, excessive consumption means that the consumption level in the whole nation exceeds the level in the production of the material and labor products that the nation can possibly provide. It will be difficult to rely on these two indexes alone in deciding that China is a nation where people live beyond their means. Reason number one is that the fairly high growth rate after the implementation of China's reform policy is something coexistent with the rapid growth of the national income at the same time. The fact that the rate of growth in consumption is higher than the rate of growth in national income was the result in correcting the "leftist" policy on consumption, which had neglected efforts to improve people's living standards over a protracted period and paid attention to production only while ignoring consumption. This is also a specific manifestation of the achievements made by the state in implementing its policies laid down after the Third Plenary Session of the 11th CPC Central Committee to develop its economy at a realistic speed, raise its economic efficiency, and help the people reap more material benefits. It cannot be called excess consumption. Naturally, the control of the consumption level is a rather complicated task. In some particular years, the growth of consumption funds might have been slightly too rapid. From now on, we must pay attention to timely controlling such growth. As for the specific ratio between the growth of consumption and that of the national income, the proposal put forward by some comrades to let the two grow synchronously or allow the growth rate of the national income to remain slightly higher than that of consumption seems to be quite feasible. Reason number two is that it is unscientific to compare the percentage of the number of major home appliances owned by residents in China in the 90's with the situation in capitalist countries scores of years ago.

(1) Due to different pricing policies (a low-price policy prevailed in China for a long time) and computing methods, China's national income has always been underestimated. It should not be compared with that in the Western developed nations. (2) Due to the development of science and technology, electric appliances have rapidly moved from factories into ordinary families. Naturally people have more home appliances in the 90's as compared with the period with the same level of national income dozens of years ago. Some comrades have regarded a few people's "high consumption" level and their extravagance and luxurious tastes as a sign which shows that people in China "live beyond their means." This is only a sentimental judgement. It cannot be considered economic analysis. Besides, a few people's lavish spending cannot represent the consumption level of the whole country.

### Interview With Noted Economist Yang Peixin

93CE0056A Hong Kong CHING CHI TAO PAO  
[ECONOMIC REPORTER] in Chinese No 39, 5 Oct 92  
pp 10-12

[Interview with noted economist Yang Peixin by CHING CHI TAO PAO reporter Hsiao Tung (4607 0392); date and place not given: "It Is Necessary To Avoid Vacillation Between Autonomy and Centralization of Power"]

[Text] Early this year Deng Xiaoping made important talks during his inspection tour to the south. On 22 May, he inspected the Capital Iron and Steel Corporation, and affirmed that the road taken by that corporation is correct. Recently, the State Council issued "Regulations on the Change of Operational Mechanism of Industrial Enterprises Owned by the Whole People." Up to this point, the correct way to reform big and medium enterprises—a long perplexing question in China's economic restructuring—has become clearer than ever. Recently this reporter had a special interview with Yang Peixin, an economics scholar nationally renowned as an advocate of the "enterprise contract system."

### The Socialist Market Economy Represents a Vital Breakthrough in Theory

[Hsiao] Recently theoretical circles have put forward the proposal of building a socialist market economic system. What is your comment on this?

[Yang] Deng Xiaoping has said that the planned economy is not equal to socialism, nor is the market economy tantamount to capitalism. I have a deep understanding of this as a result of my studies in recent years of the economies of Japan and Germany. Previously, I thought the Soviet practice where the State Planning Committee set targets for all departments at lower levels concerning production, raw materials, products, sales, costs, wages, and profits was only possible under the public ownership system. I thought that this practice manifested the superiority of socialism, and could ensure proportionate development of the various sectors of the

national economy. After I arrived in Japan for investigation and was briefed by the Economic Planning Agency, I was given to understand that during the early post-war period when Japan was practicing a controlled economy, all targets for production, raw materials, sales, wages, and losses for private enterprises were set by the Economic Stabilization Headquarters. The system was even stricter than ours. I had a special interview with a person who worked as a factory director in the controlled-economy period. He said: At that time the factory director's main task was to meet the quantity target. He paid no attention to quality, consumption of raw materials, and production costs. Waste was serious. Neither the factory director nor workers were concerned about management. Everything was done according to plans, instructions, and orders. The West called this "mandatory economy." At that time, because of inflation and the scarcity of supply caused by the war, there was no alternative to this mode of economy. In Germany, after Hitler took office in 1933, he made a four-year plan under the banner of the planned economy. An Executive Bureau was established to formulate mandatory plans for enterprises and farmers. As can be seen, the highly centralized planned economy based on mandatory planning was practiced not only in socialist countries but in capitalist countries as well.

[Hsiao] Why did Japan and Germany break with the controlled, or planned, economy?

[Yang] The Federal Republic of Germany and Japan broke with the controlled economy in 1948 and 1950 respectively. They abolished mandatory planning and began to practice a market economy.

In the Federal Republic of Germany, economists of the Freiburg school, based on a theoretical analysis, concluded that the mandatory planned economy cannot give full play to people's initiative and creativity. They proposed a social market economy, that is, a market economy under the government's macroeconomic regulation and control. As long as the stability of currency is maintained, they said, the government should lift the control over markets and prices and protect competition. Accordingly, the old German currency was replaced by new Deutschemarks in 1948 to stabilize the monetary system. This was followed by step-by-step actions to decontrol prices. Federal German Finance Minister Erhard (who later became the chancellor), who was then in charge of this matter, described the situation at that time as a "competition-induced prosperity." Since then, Germany has become an economic power, developing even faster than the United States, Britain, France, and Italy. This fact shows that the social market economy has prevented certain shortcomings of capitalism and resulted in faster development. The Christian Democratic Union was the first one to approve of this proposal. At first, the Social Democratic Party was in favor of the planned economy. But after the social market economy had produced successful results, it included the implementation of the social market economy in its platform.

In Japan, there was also a debate over whether the planned economy or the market economy should be implemented. Finally, Japan decided to choose the market economic mode. In 1950, it checked inflation, dismantled the Economic Stabilization Headquarters, and abolished the mandatory planning system.

These two defeated countries in World War II practiced the market economy on their devastated land. They first stabilized the currency to check inflation. Then, they gradually lifted economic control and price control, formed markets, and protected competition, resulting in a rather quick development of their economies. Now, their foreign exchange reserves rank the second and third, respectively, in the world, next only to Taiwan.

Facts have borne out the superiority of the market economy when practiced at ordinary times. Now, science and technology are progressing without cease. There are millions upon millions of different products, and people's needs are changing vastly from time to time. Under these circumstances, a planning department managed by a few people (in some cases, one person takes care of several hundred kinds of products) would, of course, be unable to get sufficient and timely information for its work and would be slow in making policy decisions. Mistakes would be inevitable, many inventive and creative attempts would be obstructed, and development of productive forces would be hampered. Under the system of the market economy, enterprises and farmers can work on their own according to market demands, and it is easier to arouse and bring into full play their initiative toward production. While there is no alternative to the planned economy in wartime and in war-preparation years, it is imperative to practice the market economy in time of peace. Deng Xiaoping's talks exploded the superstition about the planned economy and provided a basis for the policy of establishing and developing the market economy. The proposal of a socialist market economy should be viewed as a significant breakthrough in theory.

#### **Regulations on the Change of Enterprises' Operational Mechanism Will Motivate Reform**

[Hsiao] Recently the State Council promulgated the "Regulations on the Change of Operational Mechanism of Industrial Enterprises Owned by the Whole People." What are the significance and effect of these regulations?

[Yang] I believe the promulgation of these regulations will give a powerful impetus to the enterprises' structural reform and further improve the system of enterprises making their own decisions on operations.

At the August 1987 national seminar on the theory and practice of the contract responsibility system, I put forth a proposal to adhere to, develop, and make perfect this system based on the suggestions received from some enterprises. I requested that coordinated reforms be made in the systems of planning, investment, finances, materials supply, foreign trade, and banking; that enterprises be given more power to decide on their own operations; and that action be taken step by step to

discontinue mandatory planning. In particular, I requested that enterprises be granted autonomy in making investment and developing foreign trade. I said that the system that the Planning Commission had sole investment power and the monopoly system for foreign trade should be abolished. Now, Deng Xiaoping's talks during his inspection tour to the south have prompted the State Council's decision to change the operational mechanism of enterprises.

As regards how to reform the enterprise system, when Deng Xiaoping was inspecting the Capital Iron and Steel Corporation on 22 May this year, he said that the corporation was taking the right direction and doing a good job in reforming itself. He pointed out that enterprises should be given true power. Yet some people are still acting against this because giving power to enterprises will adversely affect the interests of their own departments. The tax and profit contributed to the state by the Capital Iron and Steel Corporation are considerable. It is the contributions made by this and similar enterprises that have stabilized our financial situation at the central level. We can only give these enterprises a free hand—that is, give water for rearing fish. In no way should we tighten control over them. State-owned enterprises have a heavy burden to "fulfill" the tax and profit requirements. This has already dampened their initiative. So we should act on the principle of not further hurting their development initiative and not affecting the income of their staff members and workers. In the wake of Deng Xiaoping's inspection of the Capital Iron and Steel Corporation, the State Council granted that corporation autonomy in making investment, developing foreign economic relations and trade, and lending and borrowing money. It also gave the corporation permission to establish a bank. This way, the corporation will be able to take bolder actions in its operations.

Thorough implementation of the above-mentioned regulations requires strenuous efforts. The key thing is that all departments should further relinquish their original power. In the past, with the planned economy, power was centralized in the hands of various departments of the State Council. The Planning Commission had unified control over personnel, funds, materials, production, supply, and marketing. In the financial field, there was unified management of revenues and expenditures; in banking, unified management of deposits and loans; in foreign trade, unified imports and exports, in commerce and materials supply, unified purchase and sales; in the employment of labor, unified contracts and income distribution; in dealing with commodity prices, unified control and adjustment,... Unification means centralization. Power was thus centralized in the hands of the State Council departments, while enterprises were deprived of their due rights. As a result, our economic returns declined, financial deficits increased, more currency had to be issued, and price fluctuations occurred from time to time. At the Third Plenary Session of the 11th CPC Central Committee, a decision was made to implement the policy of reform and opening to the

outside world. This policy requires that power be returned to enterprises and farmers. A household production contract system was implemented, and efforts were made to develop village and town enterprises so as to arouse the farmers' initiative. As for enterprises, they were given more decision-making power. An enterprise managerial contract system was put into effect, and enterprises were granted autonomy in their operations. In opening to the outside world, local authorities began to have some authority in developing foreign trade. A local financial responsibility system was also introduced as a way to arouse the initiative of various localities. Despite these developments, some departments still want to have the power they previously held. So, from time to time, they have retrieved power from enterprises, thus resulting in a seesaw situation—that is, power is delegated to lower levels and then called back, you delegate power to lower levels and I retrieve it, or the power delegated by the central authorities is retrieved by the various departments concerned. To enterprises, the weather is always changing unexpectedly. Sometimes it is "cloudy, then sunny." At other times, it is "sunny, then cloudy." In some instances, "thunders rumble and lightnings flash." Some departments have even gone so far as to retrieve power and collect money in the guise of reform. In 1984 the replacement of the profit-contribution system by the tax system impacted the expansion of enterprises' autonomy and caused a downslide of industrial production. In 1987 the heavy taxation policy and the tax-plus-profit-contribution system gave an incessant impact on the contract system, resulting in a decline in enterprises' economic returns. In view of this, the success or failure of the current action to change the economic mechanism of enterprises depends on whether the government departments can be prompted to truly delegate power to enterprises. For this purpose, all concerned, including those at the high and low levels, should exert some pressure on these departments.

#### **Central Authorities Should Take the Lead in Reducing Personnel and Streamlining Administration**

[Hsiao] The State Council has decided to urge the county-level administrative departments to reduce personnel and streamline administration. Action has begun in all provinces. What is the prospect of this move?

[Yang] In October 1990 I made a proposal for reducing personnel and streamlining administration to change the unfavorable situation where nearly 40 million people were living at government expense and administrative departments were overstaffed, causing increased government deficit. The State Council's decision to reduce personnel and streamline administration is correct and should be firmly carried out. To do this, the following two points should be further clarified:

First, the central authorities should take the lead and set an example. Reduction in personnel and streamlining of administration should be closely linked with the efforts to change the government functions and enterprises'

operational mechanism. Infringement on the decision-making power of enterprises comes essentially from the various departments of the State Council. Sometimes, these departments turn a blind eye on the realities of reform and opening-up to maintain the power and interests they acquired under the old system. To thoroughly change the government functions and enterprises' operational mechanism, it is imperative to get to the bottom in righting the wrongs. In dealing with the State Council departments, it is necessary, first of all, to "tear down the temples and remove the idols." In the past these departments asked the local authorities to establish counterpart departments, and the local authorities asked enterprises to set up counterpart sections. This is why we have the problem of overlapping organizations and superfluous personnel. As for how to reduce the personnel of the State Council departments and streamline their administration, Japan's experience can be used for reference. Japan reorganized its Economic Stabilization Headquarters, which controlled everything and issued mandatory plans, into an Economic Planning Agency to undertake the responsibility for formulating six-year programs. These programs point out the prospects and map out future development blueprints for enterprises, but contain no mandatory plans. They only serve as a reference for enterprises to forecast their future development. A Ministry of International Trade and Industry was established to take charge of industry and commerce, including foreign trade. This ministry plays the role of guidance, coordination, service, and supervision. For different industries, there are no separate ministries, but only bureaus. We should consider trimming the authority of our State Planning Commission so that it will function as an information forecast organ and will no longer formulate mandatory plans for those at lower levels. The Economic and Trade Office should be in charge of all industries as well as commerce, including foreign trade. The present industrial ministries should be incorporated into the Economic and Trade Office as a bureau.

Second, real efforts should be exerted to reduce personnel and streamline administration. The Central Military Commission has demanded that army building be centered on quality improvement. This direction is correct. From 1980 to 1990, the number of party and government office cadres increased 70 percent, and the administrative expense amounted to 125.5 billion yuan, or 36 percent of the total expenditure budgeted. This is the radical reason that our financial deficit is hard to eliminate. Financial deficit has forced the financial department to "squeeze everything" out of enterprises, thus depriving them of self-accumulation and self-advancement capacities. Because of this, we should devote all-out efforts to reducing personnel and streamlining administration. Certain government offices should be changed into enterprise-type economic entities. It is imperative to deprive them of administrative authority so as to avert the problem that they become

fake companies, making it impossible to fulfill the goal of streamlining administration and changing government functions.

**Current Enterprise Group Development Analyzed**  
93CE0047A *Beijing JINGJI GONGZUO TONGXUN*  
[ECONOMIC WORK NEWSLETTER] in Chinese  
No 14, 31 Jul 92 pp 20-21

[Article by Gu Shishi of Production Department of State Structural Reform Commission: "Current State and Analysis of Enterprise Group Development in China"]

[Text] Since reform and opening up, six to seven years have passed after the first enterprise group emerged on the basis of horizontal economic association. After an embryonic period, enterprise groups have now entered the stage of development, growth and improvement. At the beginning, China's enterprise groups aroused great attention and gained support from all sides. Although they were founded not long ago, they developed quite rapidly. Last year, the central task in developing economic structural reforms was to do a good job in running large- and medium-size state enterprises, and one important measure to run large and medium-size state enterprises well is to organize and develop enterprise groups. Especially, the State Council decided to conduct tests at approximately 100 selected large enterprise groups to push them into a new stage of development.

**1. Number of Enterprise Groups Continues To Increase, Quality Continues To Improve**

According to statistics compiled at the end of 1988, there were 1,630 enterprise groups approved by the authorities at and above the prefectural and city levels, and registered by the industrial and commercial departments. However, such statistics were compiled at a time when enterprise groups were not clearly defined. An analysis shows that although most of them were enterprise groups in name, they were actual loosely knit economic entities including some refurbished companies of an administrative nature. Only slightly over 15 percent preliminarily met the requirements of an enterprise group. In other words, only 280 could call themselves enterprise groups. No statistics were compiled during the past two years. After all, how many enterprise groups are there at present after so many years of development? According to statistics compiled in 1991, there were a total of 431 enterprise groups, an increase of 66 percent over 1988. Even more important is their improvement in quality. In compiling statistics in 1991, requirements for an enterprise group were clearly defined as follows:

(1) An enterprise group must have a core enterprise with comparatively solid economic strength. This core enterprise may be a production or circulation enterprise, or a proprietary corporation. (2) An enterprise group must have a multi-level organizational structure. In addition to the core enterprise, there must be a certain number of closely knit enterprises (including proprietary subsidiary

companies wholly funded by the core company, enterprises under long-term contracts or leases, and enterprises under the management of the core company to achieve "unification in six areas" through administration division), semi-closely knit enterprises and loosely linked enterprises. (3) The core enterprise and the various member enterprises of the group must meet the requirements of a legal person. (4) The core enterprise should not concurrently perform any duty as a government administrative organization. Nor should it be any company of an administrative nature. In addition, it was also stipulated that a core enterprise must meet the minimum standards of a medium-sized enterprise, and there should be three or more closely knit enterprises in one enterprise group. When statistics were compiled in 1988 on the 280 enterprise groups, there were no stringent requirements as such. From this, we can understand that enterprise groups in China have greatly increased in number. A more important fact is that they have also improved in terms of quality.

**2. Most Enterprise Groups Are in Economically Developed Areas, Expanding to Other Areas**

China's enterprise groups first started to develop in provinces and cities such as Guangdong, Shanghai, Jiangsu and Shandong. Right now, various inland provinces and cities have organized some enterprise groups. However, judged from the location of their core enterprises, most still are in provinces where the economy is comparatively developed. According to statistics, enterprise groups in Guangdong, Shanghai, Jiangsu and Shandong account for 47.1 percent of the total number of enterprise groups in China. This shows that the development of enterprise groups is closely connected with the growth of commodity economy. Right now, all enterprise groups are trying to break their geographical boundaries and to develop closely or semi-closely knit member enterprises in other provinces and cities. For example, the member enterprises of the "Jiefang" and "Dongfeng" automobile groups are now located nearly all over the country, while the "China Chemicals", "Five Mines", "China Transportation" and "Saige" groups have set up a group of enterprises overseas and extended their businesses in other countries.

**3. Distribution of Trades Is Uneven, Beginning To Develop Other Lines of Business**

China's enterprise groups first started in machinery, electronics, light and textile industries. Later, they expanded into other industries such as metallurgy, energy, building material, industrial chemicals, commerce and trade, communications, and tourism. However, most enterprise groups are doing business in the machinery, electronics, light and textile industries. According to statistics, the enterprise groups in these four industries account for 65.4 percent of the total number of groups in the country. This indicates that the development and market-oriented products of enterprise groups and are closely connected with their characteristics in production and management. However, following

the planned development of the commodity economy, and trying hard to enhance their market competitiveness, various enterprises have gradually changed their pattern of adhering to a single line of business and manufacturing a single product to that of developing diverse economic undertakings with emphasis placed on a single trade. Meantime, the ratio and variety of "side-line products" are continuously increasing. For example, the Baiyunshan Group in Guangzhou mainly manufactures pharmaceutical products, but it also produces foodstuff, industrial chemicals, packing materials, electronic appliances, garments, toys, construction, and real estate development projects.

#### 4. Enterprise Groups Continuously Improve Their Organizational Structure and Develop

To organize and build an enterprise group, it is first necessary to have a strong core enterprise—a consortium company. In the past, some companies called themselves consortium companies, but they were actually a group of jointly run companies funded by various member enterprises. They were unable to play their role as core enterprises. An enterprise group must have a multi-level organizational structure. It is a joint organization formed by multiple legal persons. It must have a certain number of closely knit enterprises. The greater the number of closely knit enterprises, the more efficiently can an enterprise group play its role in readjusting the economic structure and optimizing the production mix factor. When enterprise groups were first developed, some of them were unable to play their role well, because they had not enough closely knit enterprises, or they were just loosely knitted entities. After several years of effort, various enterprise groups have gradually improved their organizational structure, and have begun to grow. For example, the consortium company of the former "Sanjiang Group" was a joint company funded by the Izheng Chemical Fiber Industrial Company and several other enterprises. Now after some structural readjustments, it has achieved its goal of relying on a major enterprise in developing a conglomerate with the Izheng Chemical Fiber Industrial Joint Company as the core enterprise. By means of merging, contracting and shareholding, it has developed a total of four closely knit enterprises, and successfully changed itself from a loosely knit entity to an enterprise group. Another example is that by merging and signing contracts with and making compensation to other enterprises on a long-term basis, the Jilin Chemical Industrial Company has successfully built a number of closely knit enterprises and developed itself from a large company to a consortium. According to statistics, 261 or 60.9 percent of the 431 enterprise groups in China are ones with three to 10 closely knit enterprises each, while 170 or 39.1 percent of them are ones with more than 10 closely knit enterprises each.

#### 5. Strengthen Ties of Assets, Establish Parent-Subsidiary Relationship

An enterprise group is a conglomerate with the parent and subsidiary companies as the main body. The core enterprise and its member enterprises form an organic entity by linking their assets and strengthening their production and management links. Particularly it is necessary to establish the parent-subsidiary relationship between the core enterprise and the closely knit enterprises by linking their assets. In developing closely knit enterprises, the core enterprise is now attaching great importance to establishing ties in assets by holding shares in or merging with its subsidiary enterprises. Some of them combine the measures of contracting, leasing and equity participation, and gradually become shareholders or proprietors. As a result of strengthening ties in assets, the enterprise group is able to play its role well. According to statistics, 165 or 38.2 percent of the 431 enterprise groups establish ties mainly in assets; 117 or 27.8 percent of them establish their ties mainly by achieving "unification in six areas" through administrative division; and 26 or 6.02 percent establish their ties mainly by contracting and leasing.

#### 6. Core Enterprise's Economic Strength Continue To Grow

To form a powerful enterprise group, it is first necessary to have a large core enterprise with powerful economic strength. In addition, this core enterprise must continuously grow in the course of forming and building the conglomerate. Core enterprises have been continuously growing in the past several years by combining economically strong enterprises, merging strong ones with weak ones, and reforming the shareholding system. According to statistics, the core enterprises of 261 or 66.88 percent of the 431 enterprise groups in China can be considered large; 27 or 6.3 percent of them have core enterprises with fixed assets worth 1 billion yuan; 144 or 33.6 percent have fixed assets between 100 million and 1 billion yuan; and 83 or 19.1 percent have fixed assets between 50 million and 100 million yuan each. Seven or 1.6 percent of the core enterprises report annual sales proceeds exceeding 5 billion yuan each; 40 or 10.7 percent range from 1 to 5 billion; 243 or 55.8 percent range from 100 million to 1 billion yuan; and 141 or 31.9 percent of them under 100 million yuan each. The continuous expansion of the core enterprises's strength is of great significance in helping the conglomerate improve its key function for investments, increase its market competitiveness, and strengthen its unity.

#### 7. Enterprise Groups Give Full Play to Their Comprehensive Functions by Combining Science, Engineering, Trade and Finance

The reason an enterprise group is more competitive than a single enterprise is that the former organically combines science, engineering, trade and finance; and learns from each other's strong points to improve its comprehensive functions. The first is the integration of science

with engineering. For example, the Huaxia Group cooperated with 15 electronics research institutes under the Ministry of Machine-building and Electronics Industries in setting up 15 branches which have played a significant role in helping enterprise groups continuously develop new products for the world market. The second is the integration of industry with trade. Some enterprise groups help production enterprises merge with companies doing foreign trade and learn from each other's strong points, and others delegate the authority to do import and export business to large production enterprises. Some trading companies handle business transactions in both industry and commerce. The third is the integration of finance with industry. A number of enterprise groups run finance companies, which play an active role in providing financing within one's own group. They also play a positive role in helping enterprise groups improve their key function for investments, and strengthening unity. On a selective basis, the Bank of Communications encourages some enterprise groups, banks and enterprises to buy each other's shares. It also provides conglomerates with financial support.

#### 8. Shareholding System Paves a Broad Path for Development of Enterprise Groups

At present, to further develop enterprise groups, the key issue is how to break the barriers between regions, departments and ownership systems. The adoption of the shareholding system will help handle well the interests of all the departments concerned. It is an effective way to develop enterprise groups that extend their operations beyond the limits of their respective regions, departments and ownership systems. First, we may use the shareholding system to reorganize the core enterprise. We may also use such system to expand the core enterprise. Second, we may use the shareholding system to develop closely knit or semi-closely knit enterprises. The adoption of the shareholding system is also conducive to separating government from enterprise functions and to changing enterprises' managerial mechanism. It can do a great deal to develop enterprise groups.

From now on, with the planned development of the commodity economy, new enterprise groups will continue to emerge. In the development of enterprise groups, quantity is a less important issue. A more important issue is how to improve the existing enterprise groups and help them continuously expand themselves economically, and increase their competitiveness. By making experiments in selected locations, we must learn how to further improve our system, mechanism and internal management. Meanwhile, we must formulate a policy and work out rules and regulations on the basis of investigation and study so as to gradually set up a standard for the development of enterprise groups, and help them play an even greater role in promoting the national economy and become more competitive on the international market.

#### Economist Xiao Zhuozi on Expanding Market Economy

93CE0048A *Beijing JINRONG SHIBAO* in Chinese  
5 Oct 92 p 3

[Article by Xiao Zhuozi (4682 3504 1015): "Market Economy Is the Inevitable Path to Fast Economic Development"]

[Text] The most urgent task facing China today is to seize the opportunity, speed up economic development, and narrow the gap with developed nations in economy and technology. To attain the goal, we must firmly intensify structural reform and establish a comprehensive market system and operational regulations according to the rules of market economy.

For a long time, some comrades have, in a one-sided view, believed that socialism should practice central planning only, not market economy. They view the planned economy as equivalent to socialism, and the market economy equivalent to capitalism. They assert that market economy "means cancellation of public ownership, denial of party leadership and socialism, and practice of capitalism." The viewpoint is groundless.

In fact, the planned and market economy are both modes of economic operation and means of economic regulation. Planned economy is not equal to socialism, nor is market economy equal to capitalism. The socialist practice in China indicates that market economy is favorable to the development of production forces.

Prior to the Third Plenary Session of the 11th Party Congress, emphasis in our economy was placed on unified planned economy, mandatory plans, and adjustment of plans in economic operation, whereas market economy and market regulation were rejected and denied. At that time, production, distribution, exchange, consumption, and other links were operating under a planned arrangement. Enterprises lacked authority over production and management, and lacked vigor and vitality. The complex production activities and supply-demand relations were at the mercy of mandatory plans subjectively formulated by only a few people. Revenue, profits and losses were centrally controlled. Distribution was characterized by equalitarianism and the big pot, resulting in crippled initiatives in enterprises and the masses. Such a unified central planning system seriously hampered the socialist production force, and led to dramatic economic fluctuations. Decision errors of a few people often led to disastrous outcomes. The so-called "Great Leap Forward" campaign during 1958-1961 was a typical example. Historical lessons were profound, which made us realize that we can no longer pursue the route of a planned economy.

The process of reform and opening up in China is essentially one of constant diminishing function of planned economy and expansion of market economy. The gradual decrease in mandatory plans, increase in the

scope of market price commodities, expansion of enterprise autonomy, the formation and development of market system, including the consumer market, means of production market, labor markets, real estate markets, technology markets, and stock markets, and the gradual strengthening of the function of market adjustment, all indicates that our economy has turned from the route of planned economy to the orbit of market economy. Such conditions have greatly enhanced the development of social production force. Since reform and opening up, the nation's annual average economic growth, residents' real standard of living, surplus cash deposits in urban and rural areas, and imports/exports have been going up a great deal faster than the previous years.

Since there are differences in the level of reform and opening up between regions in China, market function and market scope differ from region to region. Generally speaking, coastal areas, especially economic special zones and open cities have a larger scope of market economy and stronger market function, therefore, the rate of economic development is fast. In contrast, regions where reform and opening up are slow, the rate of economic growth is slow. The so-called "Northeastern phenomenon" during the period of improvement and rectification, which referred to the region's low economic growth rate and poor economic efficiency, was mainly due to its stronger planned economy and weaker market economy in comparison with coastal open cities.

The function of market adjustment also differs between different types of enterprises. In state-owned enterprises, mandatory plans and plan regulations still exist to a large extent in their production and operation, whereas in independent, private enterprises and joint or foreign ventures market adjustment is the primary mode. Because these enterprises operate according to the needs of market economy and respond well to the market, their growth rate is a lot higher than that of state-owned enterprises. This also shows that market economy suits better the development of production forces.

The scope and function of market adjustment vary across different production departments and products as well. As a result, since reform and opening up, the extent to which they grow and meet market need differ too. The output of farm products that deregulated prices first such as aquatic products, fruit and vegetables has increased a great deal to satisfy market demand price.

Practice indicates that regions, enterprises and products that adhere to planned economy and mandatory plans are gravely hampered in their production and are ineffective, while those geared by relatively stronger market function and wider scope of market economy show a faster growth in their development. It thus proves that the implementation of market economy is a realistic choice, and a requirement for developing social production forces.

Today's economy shows a salient tendency toward internationalization. No nation can confine itself to its own

and ride outside the route of world economy. They cannot cut themselves off from the outside world and refuse to take part in international economic activities and competition. They cannot stick to the old rules, work on their own, and reject international practice. Since reform and opening up, the growth rate of our country's international trade has exceeded that of economy. The proportion of total trade volume in total production has increased from nine percent in 1979 to the current 30 percent. To actively make use of both international and domestic markets, of the two resources, and of the two kinds of capital, we must vigorously take part in international economic activities and competition. We, therefore, have to follow international practice, making our economic structure compatible with it.

Economic international practice is based on a market economy. In other words, it is formulated according to the requirements of market economy. Consequently, we must set up a market economy to take part in international economic activities and competition.

Some anti-market economy comrades think that a market economy is bound to lead to a situation of anarchism. They believe that if we carry out reform following the principles and practices of market economy, it will "cause enterprise operations to be divorced from the interests of the social totality, and dominated by the spontaneous force of the market." The argument is not tenable. It is true that a market economy has the element of spontaneity. Without administration and regulation, it may result in a condition of nongovernance. This is, however, only one side of the story. Viewed from a different angle, since market economy exists and operates within a certain social environment, it is definitely subject to administration and policy constraints. The nonadministration and nonpolicy constraining "pure market economy" has never existed. It does not exist in socialist societies; nor does it exist in capitalist societies, not in contemporary capitalism or even in the phase of free-competition capitalism. Whether in capitalist or socialist societies, market economy is always administered by government, constrained by policies and adjusted by the macroeconomy, with no absolute freedom.

Practice has proven that the traditional planned economic structure has seriously hindered the development of production forces, and market economy promoted it. It is therefore the inevitable route to speeding up China's socialist economic development through expanding market economy scope, making use of market adjustment, and diverting the nation's economic structure of central planning to market economy.

#### **Commentary on Market Economy Under Socialism**

93CE0065B Beijing JINGJI RIBAO in Chinese  
19 Sep 92 p 1

[Commentary: "Create a Successful Market Economy"]

[Text] Economic construction, reform, and the open policy have entered a critical phase, as symbolized by the speech made by Comrade Deng Xiaoping when he toured the south. How to bring about the transition from a highly centralized planned economy to a socialist market economy is a highly complicated task. We must accomplish this task if we are to further reform and develop the economy. Our hopes for making the people rich and the country strong also hinge on it. If we do not pull this off, we will fall behind in global competition.

China's socialist modernization must take the road of a market economy. This is the only conclusion we can draw after a dozen years of exploratory reform. From the principle of "stressing the planned economy and supplementing it with market regulation" put forward by the 12th National Party Congress [NPC] to the new concept of a planned commodity economy advanced by the Third Plenary Session of the 12th CPC Central Committee, from the notion put forward at the 13th NPC that the socialist planned commodity economy is one where planning and the market are intrinsically linked to the subsequent call for integrating the planned economy with market regulation, our understanding of the relations between planning and the market has continued to deepen. Today it would be logical and normal for us to further liberate thinking after reviewing the experiences and lessons of a dozen years; take China's reality as our starting point and fully realize that the socialist commodity economy is none other than the market economy; and make the establishment of a socialist market economy the goal of economic restructuring in China. To do all that is to achieve a breakthrough that is fundamental in nature and has decisive importance and profound impact.

On the other hand, there is the long-held notion that a planned economy amounts to socialism and that a market economy amounts to capitalism. Mention market economy and people try to figure out whether something is "surnamed" socialism or capitalism. The fact is that back in 1979 Comrade Deng Xiaoping already answered the question—Can we put together a market economy under socialism?—in no uncertain terms. In a conversation with an American scholar, he said it was absolutely incorrect to suggest that the market economy is limited to a capitalist society and can only be a capitalist market economy. Why can't there be a market economy under socialism? he asked. During his inspection tour of the south early this year, Comrade Deng Xiaoping further pointed out, "Shall we have a little more planning or a little more market? The answer to this question does not essentially distinguish socialism from capitalism. A planned economy is not equivalent to socialism; the capitalists practice planning too. A market economy is not equivalent to capitalism; there is a market in socialism too. Both planning and the market are economic tools." Essentially the market economy is the standard means of allocating resources in a commodity economy under socialized mass production. It has no intrinsic social attributes and does not reflect the

characteristics of the prevailing social system. Those who equate the market economy with capitalism or suggest that they are mutually exclusive are on slippery ground theoretically.

To put together a market economy means basing economic operations on the market and making the market the basic method of resource allocation. But this does not mean that we categorically reject planning and abandon macroeconomic regulation and control. No country in the world today has a totally free market economy with absolutely no macroeconomic management. Even developed nations practice planned regulation and control. It is just that such regulation and control is based on the law of value and has become part and parcel of the market economy, instead of being imposed from outside. In the market economy under socialist public ownership, we are entirely capable of doing an even more effective job in planned regulation and control and macroeconomic management.

Putting together a market economy is a new topic to us whereas Western nations have been doing it for centuries and have found a way of proven effectiveness. To avoid detours, we should copy it boldly. The experiences of the West in the development of a market economy were acquired and improved upon continuously through exploration and experimentation over a long period of time, mixed with lessons and experiences borrowed from socialist nations that practice economic planning. Their experiences are mankind's common wealth. Practice proves that other than such experiences nothing else on this planet can be our guide. We must go all out to emulate diligently the advanced science and technology of advanced nations as well as their methods of managing and regulating the economy. Learn everything in their social and economic systems that help the development of social productive forces. While countries differ in political and social conditions, we must not ignore the economic achievements of former planned economies which have switched to a market economy; useful lessons can be learned from their transition too.

We now call for the establishment of a market economy because we have liberated our thinking. But the establishment of a market economy awaits the further liberation of thought. Ideological changes are a prerequisite for institutional changes. For a long time we have been saddled with the baggage of feudalism and a planned economy. In addition, we are quite confused as to what is socialism. Thus there is considerable ideological resistance to the push for a market economy. It was easier to bring about the transition from a semi-feudal society to a highly-centralized planned economy. Much more difficult will be the switch to a market economy. Not only are our ideas out of step, but so are our work methods and efficiency. When it comes to liberating our thought, therefore, the most basic thing is to liberate ourselves from the concept, methods of thinking, and methods of work of the planned economy formed in the course of many years. Without this kind of liberation, it will be very hard to change the economic system.

Today the great task of building a socialist market economy has just gone under way. Let us use the wisdom and experience of tens of millions of people to make the task a resounding success.

**Zhang Yanning on Transforming Enterprise Mechanism**

93CE0017A Beijing GUANLI SHIJIE  
[MANAGEMENT WORLD] in Chinese No 4, 24 Jul 92  
pp 1-2

[Article by Zhang Yanning (1728 1750 1337), deputy director of the State Council's newly created (Spring 1992) Economic and Trade Office: "On Transforming and Improving Enterprise Management Mechanism"]

[Text] The core of enterprise reform is to transform the management mechanism of enterprises. The objective of transforming enterprise management mechanism is to gradually turn enterprises into socialist commodity producers and managers engaged in self-management, able to assume sole responsibility for their own profits or losses, and take charge of their self-development, and self-restraint.

Transforming and improving the enterprise management mechanism requires that the status quo of overlapping governmental organizations and intersecting functions be changed. Various government departments must transform their functions, change from direct management to indirect macro-regulation and control, and to supervision and services.

Transforming and improving the enterprise management mechanism requires that we directly steer enterprises into both domestic and international markets, implement self-management, equal competition, and the principle of promoting the superior and eliminating the inferior must be carried out among enterprises. Thus, well-managed enterprises can accelerate development, reach a higher technological level and greater economies of scale, supply markets with better and more commodities, and bring about more wealth for the country. Enterprises suffering from long-term losses and low efficiency due to poor management must be closed down, merged, or transformed in time so as to break away from their passive situations.

The transformation and improvement of enterprise management mechanism are the continuing of enterprise reform. They should be pushed forward based on reform achievements. Over the last 10 years of reform and opening to the outside world, we have conducted a series of explorations in enterprise reform, and accumulated a lot of valuable experiences. Reforms in contracted production system, shareholding system, leasing system, and the tax and profit separation system have all, to some extent, made attempts at transforming enterprise management mechanism. For instance, in accordance with the local and organization's actual conditions, various areas and trades suited measures to their local conditions and created various forms of contracting in

line with their local and organizational characteristics. This has not only greatly invigorated a great number of large- and medium-sized enterprises, but also has transformed their management mechanism to various degrees and created conditions that matched other reforms as well. Now, after turning in taxes and profits to the state and distribution within the enterprises, the contracted enterprises have by and large three circumstances: The first is that capital growth outweighs enterprise debt and new wealth has been created for the country. The second is that capital growth and debts are roughly identical, that is, no new wealth has been created. The third is that debts of enterprises exceed their capital growth, some enterprises suffer losses or potential losses, and a few enterprises even find themselves stuck in a situation in which their assets fall short of paying their debts. Therefore, in production contracts emphasis must be placed on examining economic efficiency, and listing in the contracts capital growth and the amount of debts that must be strictly examined. Only by so doing can we evaluate comprehensively enterprise management, the degree of their contributions, and truly better combine the improvement of contract systems and the transformation of enterprise management mechanism. The shareholding system is an effective form of raising construction funds and supervising enterprise management. It presents an even more strict requirement for the internal management of enterprises, particularly the management of assets, debts, costs, and distribution. Pilot programs in Shanghai and Shenzhen have proven that the shareholding system can even more surely realize the divorce between administrative and managerial responsibilities, the appropriate separation of one power from the other, safeguard state ownership, and implement the management autonomy of enterprises. Therefore, the shareholding system will play an important role in pushing forward our transformation and improvement of the enterprise management mechanism.

The transformation of enterprise management mechanism must safeguard state ownership. That is, as the owner the state has the power of supervision and management. At the same time, the state must avoid interference in the normal management activities of enterprises in the name of the owner.

Enterprise property refers to the property which the state grants enterprises for management. It also includes the state's various forms of investment in enterprises and the assets created by the investment. The state has the right to supervise and examine the value protection and growth of enterprise assets, and to monitor management losses and benefits, and to manage and supervise the distribution of enterprise profits, major investment activities, and the appointment and dismissal of key enterprises leaders.

The transformation and improvement of the management mechanism of enterprises require that the management autonomy of enterprises be practically carried out. The management autonomy of enterprises is the ability

which enterprises have to make decisions on their managerial activities and put them into practice. Whether enterprises have sufficient management autonomy is a sign of whether they are truly legal person enterprises (companies). The "Enterprise Law" has provided a legal basis for the contents and implementation of the management autonomy of enterprises. But over the last few years, the autonomy stipulated by the "Enterprise Law" has not been genuinely implemented. The reason mainly lies in the fact that the macro-management concepts, modes, and methods that were formed for a long time in the government under traditional managerial systems have not been fundamentally changed; governmental organizations overlap, their departments are numerous, their functions intersect, and they are used to direct control and management, thus causing excessive interference in enterprises. Therefore, government departments must be determined to eliminate their unnecessary interference in the managerial activities of enterprises, and truly push enterprises to the market.

The most important things in the management autonomy of enterprises are the power for personnel and labor, power for distributing salaries and bonuses, power for product price setting, power for investment policy, and power for import and export management. Once these "five powers" are implemented, the transformation and improvement of enterprise management mechanism will be greatly accelerated. At the same time, enterprises ought to have a certain amount of reserve funds and depreciation and technological development funds so as to maintain certain capacity for self-development and circulating funds. Now, enterprise technological innovation and circulating funds of some well-managed enterprises are all above 30 percent, and a small number of enterprises manage without any debts. Enterprises that have profitable results should be allowed to raise their proportion of depreciation rate and funds for technological development, enter rapid renewal and transformation, develop products that have high added values, achieve greater economies of scale, further strengthen their competitiveness, particularly international competitiveness, and enter the international markets at higher levels.

Rights and responsibilities are two inseparable aspects in doing a good job in running enterprises. In management autonomy, and assuming sole responsibility for profits or losses, enterprises (or legal person representative) must be held accountable for the state's mandate (or delegation). This type of managerial responsibilities includes: first, the responsibility of creating more wealth for the country and continuously enhancing the ability of the state assets to grow. Second, being responsible for losses incurred in enterprises. First of all, factory directors and the leading body of enterprises bear direct managerial responsibilities, and the whole staff bear economic responsibilities. Specifically, the responsibilities will be borne this way: Income will float downward strictly in line with state regulations. Second enterprises will pay for the losses with their reserve funds. If an

enterprise has used up its reserve funds, this is a signal that the enterprise is further worsening. This shows that the director and the staff are not in a position to perform their economic responsibilities, and measures must be taken to annex the enterprise. Enterprises must be supervised in time to prevent and reduce enterprises from getting into situations where their assets fall short of paying their debts. Third, those few enterprises whose assets fall short of paying their debts must be treated as bankrupt as soon as possible according to regulations governing bankruptcy. In this matter resolution must not be delayed very long, or even greater losses will be incurred.

An important link in the transformation of enterprise management mechanism is the reform of personnel, labor, and distribution systems. A number of enterprises have made some breakthroughs after many years of practice, but no great changes have taken place in most enterprises. Determination must be made to overcome difficulties. Step by step "cadres can move up or down, staff can come or go, and their income can be high or low." Within enterprises there will be two-way choices; while there is optimum composition to promote the flow of a certain number of the talented personnel, enterprises can maintain the stability of staff and a relatively strong cohesive force, maintain good discipline for labor and production order, bring into full play the staff's enthusiasm and originality, and maintain relatively high labor productivity and work efficiency.

The transformation and improvement of enterprise management mechanism also requires that the internal managerial system be strengthened. After the transformation of the enterprise management mechanism, if we are not good at internal managerial practices, wrong decisions are made, and the staff's enthusiasm and originality cannot be brought into full play, we still can fall into dire straits. Therefore, mechanism transformation must be combined with good management. At present in mechanism transformation, special emphasis must be placed on internal managerial work.

The transformation of enterprise management mechanism still requires that the management of assets, debts, and stock within enterprises be geared toward greater rationality, strictness, and effectiveness. Management itself contains the self-binding ability on the part of enterprises. At present, financial affairs of some enterprises are in confusion, costs have gone out of control, taxes that should be apportioned are not apportioned, losses are not reported, and what appears as profits are actually deficits. Therein lies the crucial reason for low economic efficiency. These phenomena manifest that enterprises must strengthen their management to transform and improve management mechanism.

Strengthening the internal managerial systems of enterprises still requires that the government supervise enterprises according to laws (including the strengthening of auditing functions and regular examination of financial affairs), and that enterprises regularly publicize their

managerial results. Only by so doing can we further push forward the internal managerial work of enterprises and promote the transformation and improvement of enterprise management mechanism.

Transforming the management mechanism of enterprises is extremely arduous work. We must unify planning, provide guidance based on recognizing enterprise types, gradually push forward, and reach our goals in accordance with local actual conditions and different types of enterprises.

#### Statistics on National Economy for August 1992

93CE0065C Beijing JINGJI RIBAO in Chinese  
18 Sep 92 p 1

[Article by Gong Jiao (7895 8032): "Strong Economic Growth Reported for August"]

[Text] The nation's economy continued to grow briskly and all areas of development maintained strong momentum in August, according to data supplied by the State Statistical Bureau.

Industrial output continued to experience fast growth. For the month of August industrial enterprises at the township level and above completed 232.1 billion yuan worth of output value, up 21.2 percent over the same month a year ago. On a daily basis, output value in August rose 1.4 percent over the preceding month. The output of large and mid-sized enterprises increased 18.7 percent. From January through August the gross value of industrial output completed amounted to 1792.3 billion yuan, up 19.2 percent over the same period a year ago.

The upward trend in investment remained strong. In August units owned by the whole people completed fixed assets investment to the tune of 36.4 billion yuan, up 40 percent over the same month in 1991, bringing the amount of investment completed for the January-August period to 200.2 billion yuan, up 36.4 percent over the corresponding period a year ago. Investment in capital construction soared 30.6 percent while that in renovation and transformation rose 41.8 percent. The real estate business was booming. Investment in commercialized housing construction was racing ahead, with 3.3 billion yuan worth of investment completed, up 74.6 percent over the same month last year.

Sales on the domestic market expanded steadily. Social commodity retail sales stood at 85.1 billion yuan in August, up 15.1 percent over the same month a year ago. Between January and August, social commodity retail sales amounted to 694.4 billion yuan, up 14.3 percent over the corresponding period in the preceding year.

Foreign trade expansion continued to accelerate. Exports totalled \$7.88 billion in August, up 21.6 percent compared to the same month in the preceding year, while imports amounted to \$6.61 billion, up 18 percent. Between January and August, exports totalled \$50.6

billion, a gain of 17.2 percent over the same period in 1991, while imports climbed 21.9 percent to \$45.9 billion.

Economic results improved. Between January and July the economic results composite index for the nation's industrial enterprises at the township level and above which practice independent accounting stood at 86.27 percent, up 0.62 percentage point over the preceding month and 4.64 percentage points over the same month a year ago. The product sales rate continued to go up. For the month of August the industrial product sales rate was 96.74 percent, up 0.37 percentage point over the preceding month. The light industrial product sales rate was 97.05 percent, overtaking its heavy industrial counterpart for the first time, which was 96.5 percent. Between January and August state industrial enterprises within the budget realized 107.3 billion yuan in profits and taxes, up 18.9 percent over the same period last year (including 21 billion yuan in realized profits, an increase of 28.2 percent.) As of late August, the number of money-losing enterprises was off 4.8 percent compared to the same time a year ago and down 0.2 percentage point from the preceding month.

#### Liu Jiang Stresses Lateral Economic Cooperation

93CE0066A Beijing JINGJI RIBAO in Chinese  
29 Sep 92 p 1

[Report by Cheng Yuan: "State Planning Commission Deputy Chairman Liu Jiang Emphasizes the Need for Enhancing Lateral Economic Cooperation To Build a New, Modernized Market System"]

[Text] Lateral economic cooperation can prevent redundant construction and overcome enterprises' problem of low efficiency caused by small scale operations. And can also play a special, positive role in building a open, multi-functional, socialized and modernized market system. Deputy chairman of the State Planning Commission Liu Jiang made the above-cited overall assessment of lateral economic cooperation on 27 September at the National Working Conference on Specialized Support for Lateral Economic Cooperation.

Since the early 1980s, rapidly growing lateral economic cooperation facilitated the rational flow of factors of production and the rationalization of regional division of labor, speeded up the circulation of goods and the growth of the market system, and improved the efficiency in resource development and use, thereby playing an important expediting role in the development of productive forces and in achieving economic prosperity. According to statistics, in the period of the Seventh Five-Year Plan alone, nationwide over 430,000 projects of economic and technological cooperation among provinces, autonomous regions and municipalities were completed, and increased profit taxes by over 32.9 billion yuan. On the basis of the further development achieved during 1990, 1991 saw an increase of 12 percent in the

number of cooperation projects, and an increase of 24 percent in profit taxes remitted.

In recent years, cooperation has pushed enterprises to large-scale developments. Nearly 40,000 cooperative enterprise groups of various levels and scales have been established. Of these, 1,600 are economically competitive enterprise groups, which have raised efficiency. At the same time, regional cooperative organizations and economic networks with various characteristics have been developing on a large scale, in a manner involving more extensive cooperation, and in a comprehensive way. This development expedited the optimal allocation of resources and the development of regional economies, and accelerated the process of opening to the outside world. Lateral cooperation has yielded many good results, and is playing an important role.

According to Liu Jiang, following economic structural reform, especially continuing reform of the planning system, the scope of planning in terms of the financial and material resources under the state's direct control is getting ever smaller. Lateral economic cooperation will play an ever more prominent role in market regulation. Cooperation across regional and sectoral boundaries can promote the formation and growth of the capital market, materials market, and the market for technical personnel. Such cooperation can push enterprises to develop joint-operation entities involving more extensive cooperation, in accordance with the requirements of the state's industrial policy.

Liu Jiang emphasizes that in future planning work, it is necessary to break administrative boundaries between regions, and to consider the issue of geographical distribution of productive forces from the perspective of regional conditions and the principle of economic coordination. It is necessary to give full play to the role of regional strengths and specialties on the basis of an overall consideration of the national economy as a whole, to adopt the approach of intensive operation, and to give emphasis to resolving the problem of "bottlenecks" constraining the development of regional economies. We should nurture and establish regional market systems, and establish regional capital, materials, technology, and labor service markets in a gradual manner.

### Second Symposium on Socialist Market Economy Held

93CE0066B *Beijing JINGJI RIBAO* in Chinese  
30 Sep 92 p 1

[Report by Yan Kalin and Liu Donghua: "Speed Up Establishment of the New System of Socialist Market Economy"]

[Text] The second symposium on "Market Economy Forum" systematic research program was held from 28 to 29 September in Beijing. A group of well-known economists and young and middle-aged students of economic science freely expressed their views at the symposium, and put forward many ideas, especially on

some practical issues concerning the actual movement toward socialist market economy.

The participants believe that the determination of socialist market economy as the direction and goal of China's economic reform is an important event of milestone significance. After 14 years of reform, we have come to the stage of storming the bastion—the stage of leaving planned economy and moving toward socialist market economy. At this stage, everyone fighting on the basis of his own judgment is prone to lead to chaos; thus it is necessary to adopt coordinated, comprehensive reform measures. What is the most urgent for the moment is to establish as soon as possible the basic organizational structure, basic rules and regulations, and basic support systems of a market economy. We should strive to make the national economy start to function as a market economy in three to five years, and achieve the full development of the system of market economy some time after that.

The participants suggest that to make socialist market economy a reality, it is first necessary to build up market actors. If enterprises lack quick reactions to price signals and other market messages, a well-functioning market cannot be formed. To have actors who function in the market mainly means that enterprises must have strong drives for long-range development and be able to exercise self-restraint, and must adjust their business strategies in a timely fashion in view of changes in market parameters. Therefore, at this moment, it is urgent to proceed with the reform of the ownership system, so as to provide system-level solutions for such problems as unclear ownership, nonseparation between government and enterprise, the lack of decentralization of power in the two areas, and difficulty in transferring assets, all of which have haunted state enterprises and "large collective" enterprises for many years.

Second, it is necessary to speed up the development of the market system. The participants believe that at present it is necessary to form as soon as possible rules governing the market that facilitate fair competition. It is especially necessary to expedite the formation of such laws and regulations as the "Market Law" and the "Anti-Monopoly Law," so as to protect and promote fair competition, and suppress monopoly and the carving up of the market. At the same time, it is necessary to fully develop various market intermediate organizations to facilitate circulation, including various chambers of commerce, accounting offices, auditing offices, law offices, research and consulting institutions, notary offices and all kinds of institutions performing functions of agency.

To establish the new system of socialist market economy, it is also necessary that government departments speed up the transformation of their functions, and focus on institutional reform. The participants suggest that the main function of planning departments should change from one of mainly micro-level management, into one of mainly macro-level management. The fiscal departments

and the central bank should improve the performance of their regulation and control functions and the use of fiscal and monetary means, on the basis of improved monitoring and analysis of the economy. In the future, with the establishment and development of the system of state assets management, those enterprise supervising departments based on sectoral divisions and product specializations should have their functions weakened or changed in a gradual manner so as to suit the needs of socialist market economy.

Among the participants at the symposium were Zhou Shulian, Zang Zhifeng, Chen Jiyuan, Lu Xueyi, Lu Jian, Du Ying, Li Xiaoxi, Guo Shuqing, Gao Tiesheng, Lou Jiwei, He Yang, Ma Kai, Li Kemu, Shi Xiaomin, Fan Gang, Xie Shusen, Gao Xiqing, Li Wenji, Xia Xiaolin, Wang Zhenzhong, Qu Zhiqiang, the general manager of the Nande Economic Group Mou Qizhong, and the deputy manager of Wantong Futures Trading Company Liang Yancheng. Editor-in-chief Fan Jingyi, the deputy editor-in-chief Yang Shangde, and the director of the commentary department Feng Bing of JINGJI RIBAO, as well as the chief editor Wu Jinglian and the deputy chief editor Tang Yifeng of GAIGE presided over the symposium on separate occasions.

#### Financial, Economic Dangers of Hidden Losses Analyzed

93CE0044A Beijing QUNYAN [POPULAR TRIBUNE] in Chinese No 8, 7 Aug 92 pp 12-15

[Article by Yang Jisheng (2799 4949 4939): "Hidden Enterprise Losses: A Hidden Danger to the State Treasury and the Economy"]

[Text] In China there are these kinds of enterprises: Those that show a profit on the books, but actually are losing money and those that show a 10 million loss on the books, but actually are losing 20 million. Everyone calls these hidden losses. Hidden losses are gaps in the national economy and it is not known how deep or how large the gaps are.

#### How Great Is This Gap After All?

Because they are hidden losses, it is very difficult to know the true situation. Responsible departments that have only done some investigations of some of the enterprises all believe that losses on the books could be the lowest figures and the actual losses should be much greater. But even these lowest figures are alarming enough. Please observe:

In a Hebei Province Finance Department investigation of industrial enterprises in the total provincial budget at the end of 1991, 1,263, approximately 63 percent of the enterprises investigated, had hidden losses and the hidden losses totalled 2.58 billion yuan.

A November 1990 Liaoning Province Finance Department investigation revealed that 1,257 industrial enterprises in the local budget, 70.4 percent of the total

enterprises investigated, had hidden losses, and the losses totalled 2.2 billion yuan. Of these losing enterprises, 41 percent showed profits on the books and the hidden losses were 1.3 times the profits shown on the books. A comrade from the Liaoning provincial organizational reform committee estimates that hidden losses for the whole province are 10 billion yuan or more.

Figures from a Tianjin Municipal Industry and Commerce Bank investigation of 513 state-run enterprises at the end of June 1990 showed 144 with open losses (losses on the books), or 28 percent, and 453 with hidden losses, or 88 percent. There were 3.1 times as many enterprises with hidden losses as there were enterprises with open losses.

A Gansu Province Finance Department investigation calculated the hidden losses of industrial enterprises throughout the province at approximately 800 million to 1 billion yuan, equal to three times the profits realized and equal to the total provincial treasury revenue for 1991.

In a Beijing Municipal Auditing Bureau investigation of industrial enterprises in 13 industries at the end of 1989, 310 enterprises, or 78 percent, had hidden losses. The hidden losses totalled 653 million yuan, equivalent to 50 percent of the revenue that the enterprises submitted to the treasury. Based on analysis, the present hidden losses have reached 1 billion yuan.

The results of an investigation of 140 industrial enterprises by the department concerned in Shanxi Province showed hidden losses totalling 1.87 billion yuan, more than six times the open losses.

Every province and every city has this kind of shocking figure.

It would be very difficult to investigate the proportion of hidden loss enterprises and the actual total hidden losses figures throughout the country. Besides losses that cannot be seen on the books, there also are losses not entered into that year's loss totals. These "hanging account" losses cannot be seen on the books. They are temporarily hanging on account and are not figured into that year's losses, hoping to use future surplus profits to make up for them. But because enterprise economic returns are short, not only can this deficit not be made up, but there are more and more accounts hanging. According to a responsible spokesman, at the end of 1991, the Ministry of Finance had a total of 114.5 billion yuan in hanging accounts. This is debt outside the treasury deficit.

What was pointed out above are hidden losses in liquid funds. There are greater deficits in fixed assets. Fixed asset "deficits" are manifested in the following ways: (1) Not raising or only slightly raising depreciation so that fixed assets are eroded year by year. (2) The prices of fixed assets are inflated. On the surface depreciation charges are raised in accordance with the price at the time of purchase. Even if the depreciation is raised

sufficiently, the accumulated depreciation charges still cannot replace the original equipment. (3) The fixed assets are used for excessive time and the raising of the depreciation charge is completed early and the value of the fixed asset on the books is 0 or negative. (4) The original equipment that is obsolete with technological advances and should of course be eliminated continues to be used. (5) The foreign equipment that is introduced cannot be used and it lies in the factory and every year they pay interest on it. The hidden losses from fixed assets have already made very many enterprises "empty shells."

#### Forms of Hidden Losses

The forms that hidden losses take include the following:

First, the actual value of materials (products, semi-manufactured goods, raw materials, and fuels) in reserve or not included in reserves is smaller than the value on the books. The difference between the value on the books and the actual value is a deficit. Losses on material values are further divided into several situations:

The amount of the material is reduced. This includes losses, inaccurate calculations, and natural waste (such as the spontaneous combustion of fuel). According to this reporter's investigation, this type of material loss is alarming. For example, a certain refrigerator factory in North China is said to have lost 100 refrigerators, a certain automobile plant in East China lost 100 chassis, and 5,000 pairs of shoes disappeared from the 1990 warehouse inventory of a certain shoe factory in Hebei Province!

The materials exist, but because of deterioration, damage, or scrapping they have no usable value. This portion of property really should be entered on the ledger as scrap losses, but because the total is too great, they are afraid that it will affect that year's profits and do not enter it on the ledger.

The material exists and has usable value, but its book value is lower than its market value. For example, the costs of reserve products are higher than the market price and they need only be sold off to reveal the loss. So, they would rather take the financial pressure on the warehouse than sell them off. The state allows them to reduce their reserves and the factory uses trickery and removes them from the warehouse inventory, but puts them in the factory as before. There also is raw material formerly bought at a price higher than the present market price (raw materials received around 1988 were generally higher priced) and if it is inventoried at present prices it will show a loss. To cover the loss, it is listed at the original price. It is estimated that in the finished product reserves of industrial enterprises inventory losses, scrapping, shortages, and price differential losses make up approximately 20 percent of total prices.

Second, there is intentional lowering of costs on the books to increase profits on the books. The techniques are:

Raising depreciation on fixed assets a little or not at all and adjusting the fund up. The depreciation funds of a great many enterprises are not raised in accordance with state stipulations, but are reclaimed. Every year at the end of the year, they use the income created by the enterprise that year and deduct expenses other than depreciation. What is left over is the depreciation fund. If nothing is left over, they do not raise a depreciation fund. According to a 1990 Ministry of Machine Building and Electronics investigation of 131 key mainstay enterprises in Heilongjiang, Liaoning, and Jiangsu, they shorted it by approximately 16 million yuan, and in the last two years the shorting of depreciation has been more serious. In the past five years, Gansu Province has shorted the depreciation and adjusted up the fund by 280 million yuan. This 280 million was all assigned to profits.

Administrative fees, shop outlays, and sales expenses that should be listed as costs are not listed as costs, thereby creating false profits. In a Ministry of Finance Industry and Transportation Department investigation of 257 enterprises, they make up 25.4 percent of hidden losses. Hebei Province has four enterprises that are practicing "wage-efficiency linkage." That is, only if profits go up can wages increase. If they want profits to go up, costs must be decreased. Truly lowering costs certainly requires a lot of effort. But if they want to save a lot of effort, they do not list the 11.795 million yuan in expenses as costs as they should and profits are correspondingly increased by 11.795 million yuan. Wages go up and the whole factory staff rejoices, but it leaves the enterprise an unseen "void" of 11.795 million yuan.

Third, bad debt losses. It is already determined that, because of bankruptcy or violations of the law of the other legal person (mainly privately owned enterprises or individuals), there is no way to get back merchandise sold off or other sums of money. This part of losses generally makes up 6 percent to 7 percent of total hidden losses. This portion of losses should be reflected on the enterprise books and to falsely increase profits it is not reflected on the books.

How great are the deficits from enterprise hidden losses and how do the enterprises maintain them? First they rely on consuming fixed assets, that is consuming the capital. The depreciation fund and adjusted increases in the fund become profit allocations and are submitted. If they continue like this for eight or 10 years, the fixed assets could be completely eaten up. Second, they rely on bank loans to maintain them. Fees that are not listed as costs have to be paid as usual. These are made up by squeezing liquid funds and 80 percent of liquid funds depend on bank loans. Third, the deficit is left for the next administration. They clearly know that the reserve products are being lost, but they do not check, and they do not deal with the accounts. They put it off and forget it. When this factory manager's term is up, the burden is left for the next factory manager.

**When the False Is Made True, the True Also Is False**

The danger in hidden losses is not in the word "losses," but in the word "hidden." Losses certainly are not good, but if they are placed in the open, they can be gradually resolved. But hidden losses create a large false profit. This "profit" is proportionately allotted to the state, enterprises, and individuals as before. In this way, a considerable portion of the total state treasury revenue is necessarily false and also a considerable portion of the profits retained by the enterprises is false. The state still considers them true financial resources in making expenditures and the enterprises still consider them true financial resources in making allocations. "When the false is made true, the true also is false." So, the allocations exceed the actual financial resources, giving rise to the "excessive allocation of national income" that the economist fear. The excess portion of the allocation has no real wealth and relies only on the printing of money to make up the deficit. This is a major source of inflation.

The hidden losses create a group of "empty shell" enterprises. These enterprises on the surface are still quite normal, but actually they were empty early on. A certain Tianjin refrigerator factory lost 40 million yuan on the 1990 books and last year's reporting reflected a 70 million yuan loss. Not long ago, after a new factory manager took office, a relatively conscientious check was made and this enterprise's actual losses are 300 million yuan! In addition, it also owes the bank 320 million yuan in liquid fund loans and 270 million yuan in special and capital construction loans. This factory's total fixed assets are only 100 million yuan. But this factory's machines still are running and the staff still goes to work as usual. This situation is not peculiar.

A large amount of hidden losses causes a squeeze on the enterprise's liquid funds and various special funds and the enterprise's interest burden becomes heavier and heavier. If the annual interest on the 2.2 billion yuan in hidden losses of the 1,257 enterprises investigated in Liaoning Province is figured at 10.8 percent, the annual interest expenditure would reach 220 million yuan.

A large amount of funds are squeezed and banks cannot bear the heavy burden and funds become tighter and tighter. But from another perspective, banks also must depend on enterprise loans to continue. Presently citizen savings account surpluses are more than 800 billion yuan. If this portion of savings deposit fixed interest is greater than interest on loans, how can the banks maintain a profit? They rely on public deposits, they are mainly enterprise deposits. Because the monthly interest on public deposits is only 1.8 percent, it is much lower than loan interest. So, the more public deposits, the more profit banks make. Where do public deposits come from? They still are bank loans. After the bank loans the enterprise money, the enterprise by no means puts up cash. It is still deposited in the bank. They need only transfer accounts and the bank then can get the difference in interest. So, whether or not the enterprise has a

loss, as long as it can loan out money, the bank makes a profit. This also creates a false impression. The bank's profits also are false.

Hidden losses can bring with them a series of false chain reactions. The previous factory manager does not want to expose hidden losses during his own tenure and the next factory manager has no way to expose them and also does not want to expose them. No one wants to reveal the scars of his own tenure and each one has no choice but to deceive the next. Because the enterprise's situation is not clear, at contracting time it is very difficult to delineate responsibility. After the contract has expired, it also is hard to trace responsibility. What is called a contract also is muddleheaded. The head of the finance office and the mayor are afraid that after the hidden losses are exposed it will affect that year's treasury revenue and they do not want to reveal this scar. The longer it is not revealed the larger the deficit accumulates and the more they dare not expose it. A great many comrades are very concerned about this. At the Fifth Session of the Seventh National People's Congress, Jilin Province deputy Liu Shijie made a special speech on the issue of hidden losses. He sharply pointed out: "How long must this deceit year after year go on before it comes to an end? This game cannot continue."

**Why Are Losses Concealed?**

Why do enterprise want to hide the losses from the books, deceiving themselves? Based on investigation there are many reasons.

The first is that hidden losses are directly connected with imperfections in the contract system. Data from the Ministry of Finance Industry and Transportation Department investigation of 257 enterprises revealed that one year before contracts (1986), hidden losses were only 116 million yuan; in the second year of contracts (1988), it increased to 352 million yuan; in the third year of contracts, it increased to 632 million yuan; and by 1990 it had increased to 1.365 billion yuan. That is to say, 91.5 percent of hidden losses were created in the contracting period. Some comrades say, "Have two more rounds of contracts and the enterprises will be completely consumed!"

There are two reasons why contracts create hidden losses. The first is that the terms of contracts are short and factory managers' terms are limited. Factory managers make every effort to retain a little more profit and issue a few more bonuses in their terms. If they want to make profits grow, doctoring the books is a shortcut. The second is that the relationship of the interests of the state to those of the enterprises is not clearly delineated in the contract. It is not firmly guaranteed. It is the same with contracts. The Capital Steelmill has not had hidden losses. This is because the term of the Capital Steelmill contract is long (15 years) and it truly has a firmly guaranteed base.

In addition, the state's method of tying total enterprise wages to economic results plays an important part in

creating hidden losses. What is called results here is profit. The enterprise's total wages float with the increase or the decrease in profits. But it is easy to float staff wages up and very difficult to float them down. As soon as profits go down, they must decrease the costs they enter a little bit to make profits increase artificially. As a result, wages increase as usual and bonuses are not decreased a single fen.

In the pattern marking the upgrading of enterprises in the last few years, if an enterprise reaches a certain grade it has a great many advantages. When a bank is selecting preferential loans, it is comparatively easy for a profitable enterprise to get a loan. Immediate interests entice enterprises to hide losses and disguise themselves as profitable enterprises.

Financial pressures from the top down create enterprise hidden losses, and especially are a major causes of hanging account losses. The last few years, a great many local contracts are really layers of financial assignments. First the financial assignment is set and the back door is firmly closed. Then the contractual quotas of various enterprises are taken back and the enterprises have no choice but to accept. The enterprises accept assignment for turning over profits and taxes that they clearly cannot complete and they have no choice but to create false profits.

Some local and departmental leaders have "term red" thinking. They are afraid that exposing and clearing a large amount of hidden losses might broaden the losses and increase the losses affecting their political record and they adopt an indifferent attitude toward enterprises not clearing their financial losses in accordance with the system and not entering costs. This is one of the causes creating hidden losses.

Although the state has promulgated the Regulation on Managing Costs and has brought up demands for managing costs, no one oversees or implements this regulation and it is just a piece of paper.

#### How Do We Get Rid of "Hidden Losses?"

To solve the problem of hidden losses, we must first solve the "hidden" and then solve the "losses." That is, we should get rid of putting false impressions first and place hidden losses out in the open.

There are two ways to solve the "hidden" problem. The first depends on external forces to expose them. The second depends on internal exposure. By external forces is meant organizational people from such units as upper echelon organizations, auditing offices, and banks going to the enterprises to appraise the stocks and assets and check the books. They also can be exposed by the news media or the public. But they also can encounter various difficulties! If a large deficit is revealed, who will make it up? If treasury revenue is reduced, what do we do? If enterprise retained profits are reduced, what do we do? From a long-term perspective, none of these is considered a problem, but immediately they definitely affect

everyone's interests. This requires from the top down keeping an eye on long-term interests and overcoming short-term activities.

Essentially, enterprise management mechanisms are the key to eliminating false impressions. A quick comparison with "three kinds of partially or wholly foreign owned" enterprise and it is quite clear. The "three kinds of partially or wholly foreign owned" enterprises not only do not have hidden losses, but they use every way possible to reduce profits. The "three kinds of partially or wholly foreign owned" enterprises not only do not raise deprecations or raise them a little, they accelerate depreciation. Hidden losses occur mainly in state-run enterprises or certain rural enterprises where government and enterprises are not separate. The fundamental reason for hidden losses is that the relationship of state interest to enterprises' interests is not clear. So, if we want to get to the root of hidden losses, we must let enterprises have true "management autonomy and responsibility for their own profits and losses." But this can by no means be accomplished in the short run. To guard against further expansion of the current hidden loss problem, we also must now adopt some urgent measures:

After appraising stocks and assets and reflecting the true situation, we should reduce what needs to be reduced and exempt what should be exempted, and the treasury should subsidize what needs to be subsidized.

As regards clearing hidden losses, we should formulate a method to assimilate it year by year.

We must further improve the enterprise contract system and improve on the "linking of wages to efficiency" and plug up the hidden loss loopholes in the contract system.

#### Classification of Large State Enterprises Completed 93CE0065D Beijing JINGJI RIBAO in Chinese 18 Sep 92 p 1

[Article by Xie Ranhao (6200 3544 3185): "Classification Project Identifies 3,518 Large Industrial Enterprises"]

[Text] The authentication of large industrial enterprises in the nation was completed by the end of July. This was announced by the national enterprise classification coordinating group at a news conference in Beijing on 17 September. As of late 1991, there were 3,518 large industrial enterprises, including 123, or 3.5 percent, super-large enterprises.

At the conference the national enterprise classification coordinating group issued authentication certificates to the leaders of 30 super-large, large Grade 1, and large Grade 2 enterprises who were present, including the head office of Shoudu Iron and Steel Complex, Daqing Petroleum Management Bureau, Zhongxin Electrical

**Machinery Manufacturing Company, Pucheng Mining Bureau, and Shijingshan Power Plant.**

Zhang Yonggang [1728 3938 0474], who was in charge of the office of the coordinating group, said that judging from the practice of the past several years, enterprise classification is a very important piece of basic work that is necessary to the deepening of enterprise reform, the switch to a new operating mechanism, the improvement of management, and the intensification of macroeconomic guidance. Enterprise classification work makes it easier to provide enterprises with customized guidance, expedites the organizational and structural adjustment of enterprises, and helps the various departments understand the situation in enterprises accurately.

Reports say that the latest round of enterprise authentication was carried out in accordance with national uniform standards worked out by six comprehensive agencies, namely the Economic Relations and Trade Office of the State Council, the State Planning Commission, the Ministry of Finance, the Ministry of Personnel, the Ministry of Labor, and the State Statistical Bureau, in conjunction with over 20 industrial sectors. There were three major characteristics, as follows: One, the enterprise classification scheme was separate from both the administrative ranking scheme of government organs and the pay scale. Two, classification was based mainly on an enterprise's productive capacity. In the case of the small number of enterprises which turned out a whole range of products and were therefore hard to classify by productive capacity, they were classified by output relative to the primitive value of fixed assets. Industrial enterprises were divided into three classes, large, medium, and small, which were then subdivided into six sub-classes: super-large, large grade 1, large grade 2, medium grade 1, medium grade 2, and small. Third, the enterprises must be legal persons that practice independent accounting.

Deputy Director Zhang Yanming [1728 6176 1337] of the Economic Relations and Trade Office of the State Council delivered an important speech at the conference. The CPC Central Committee, he noted, recently called for increasing the proportion of successful enterprises from the current one-third to two-thirds during the Eighth Five-Year Plan. Toward that end, Zhang Yanming said that he hoped that as they implement the "Regulations" promulgated by the State Council pertaining to the transformation of the enterprise operating mechanism, large enterprises take the lead in acquiring decision-making authority in their operations and carrying out other related policies; in orienting themselves to the market; in reforming the three systems within the enterprises; in achieving technical progress and modernizing management; and in successfully turning themselves into commodity production and business units that operate on their own in accordance with the law, that are accountable for their own profits and losses, that have self-development capacity, and that practice self-discipline. That way these enterprises will set an example for all enterprises in the nation.

At the conference the 30 large enterprises issued a proposal entitled "Liberate Thinking, Fire Enthusiasm, and Take Big Strides Forward" to all large enterprises in the nation.

**Chongqing's First Large State Enterprise Bankruptcy**

93CE0051A *Chongqing GAIGE [REFORM] in Chinese*  
No 5, 20 Sep 92 pp 114-117

[Article by Xie Delu (6200 1795 4389): "Thoughts on Chongqing's First Large State Enterprise Bankruptcy"]

[Text] A textile enterprise in Chongqing—The Chongqing General Knitting Mill (abbreviated hereafter as the Chongqing Knitting Mill, or CKM), was forced to apply the other day for Chongqing's first large state enterprise bankruptcy, due to poor management, wrong decision-making, more liabilities than assets, and lawsuits. The Chongqing Intermediate People's Court has accepted the case, which is Chongqing's first large state enterprise bankruptcy.

CKM, which was established in 1954 and now has over 2,900 employees, 173 mu of factory space, net fixed assets worth 44.16 million yuan, 10 major production shops, and 851 major knitting machines of all types, is one of China's large associated knitting enterprises with a manufacturing capacity of 16 million knitted goods and 800 tons of chemical fibers a year. This mill had been a great one for years. It was famous throughout Sichuan Province and all of southwest China for being the largest in size, most well-equipped and mighty, as well as for making marketable products. Its products had won top national trade honors for quality, and had sold in more than 10 faraway countries and regions in Europe, the United States, Africa, and Asia. From the First Five Year Plan to the Sixth Five-Year Plan, it paid the state taxes and profits amounting to 105.32 million yuan, or 116 times its original investment, generated taxes and profits of over 100,000 yuan per worker, earned \$6.396 million in foreign exchange, and contributed to our national development and market prosperity.

But in recent years, due to the changed macroeconomic climate, sharp market competition, operating policy mistakes, and internal management chaos, CKM had sustained successive years of losses since 1986. While the pertinent municipal departments had taken steps such as injecting capital, halting production for reorganization, and reshuffling its leadership, with everyone from top to bottom having made great efforts, none of these efforts had been able to deal with its deeper conflicts, leaving the enterprise in dire straits from which it was unable to extricate itself. By the end of May 1992, it had accumulated 20.97 million yuan in losses, with internal and external debts amounting to 82.36 million yuan, and an assets-liability rate of 187 percent. When its employees read the news in the papers that their enterprise had applied to the court for bankruptcy, some of them asked as if waking up from a nightmare, "How could such a

large mill go bankrupt?" "How could such a once flourishing mill as CKM have collapsed like this?" But that was the harsh reality.

While opinions have varied and the public response has been sharp over the bankruptcy of this large state enterprise, which has advanced equipment and newly-built workshops, as well as having once had technological, managerial, personnel, and product advantages, its bankruptcy has also taught us that enterprise profits or losses, as well as their continued existence or bankruptcy, operate according to the objective laws of a commodity economy, as well as being the inevitable result of market competition. Market forces of selection of excellence by elimination through competition inevitably enable well-run enterprises to exist and grow, while eliminating poorly run ones, which is fair, reasonable, and perfectly normal. The important thing is the following lessons we should learn from CKM's rise and fall:

1. In importing equipment and using foreign investment, we must act in accordance with our capabilities and on the basis of full feasibility proofs, and avoid by all means subjective assumptions and unchecked importing. The direct cause of CKM's bankruptcy was financing and leasing dispute lawsuits, with foreign debts leading to its demise. The early 1980's was a good time for enterprise growth, when it was essential to import moderate amounts of advanced foreign equipment as long as one acted according to the principles of technical reliability, economic reason, pragmatism, and in accordance with ones capabilities. But CKM's operators had an overheated guiding ideology, were influenced by the philosophy of "getting going and going all out" and going in for grandiose projects, acted on the slogan of "catching up to Liuzhou and passing the rest of China," disregarded need and possibility, violated objective economic laws, and divorced themselves from their mill's realities in the early 1980's by making grand plans to buy "100 each of four machines" (i.e., warp knitters, interlock knitters, bench spinners, and large rounders), which led to chaotic importing. Some imports lacked feasible market surveys, scientific proofs, and strict checks, leading to wrong decisions. For instance, the department responsible for the enterprise neither conscientiously organized experts to conduct full demonstrations of the scientific nature of imports, equipment completeness, technology reliability, economic rationality, and legal completion, or made reliable projections in areas such as product development, market prospects, debt risks, and investment returns, relying simply on subjective decisions of leaders to get things done in a jiffy.

2. In foreign imports, we need to emphasize the importing and putting into operation of hardware technology, but even more so the digestion and assimilation of software technology, in order to bring the impact of imported equipment into full play and improve our import economic efficiency. Beginning in the early 1980's, CKM imported from Britain, Switzerland, and Germany 30 sets of chemical fiber processing and knitwear dyeing and warping equipment, such as production

lines for warp knitting, jacquard weaving, yarn-dyed fabricmaking, and quilting, all of which were of advanced international level for the 1980's. But as CKM's import operations emphasized the importing and putting into operation of hardware equipment, but neglected the digestion and assimilation of software technology, particularly after the equipment was imported, CKM was unable to keep up with a whole series of key tasks in areas, such as technology, management, personnel, employee training, market studies, and product development, so that its business and management skills were unsuited to the production operations of the imported equipment, leaving the imported equipment out of repair and not running well. This included about 30 percent of the imported equipment not going into production due to factors, such as incompleteness, so that production operations did not reach the proper economy of scale, meaning that the advanced equipment certainly did not bring CKM better economic efficiency. Additional unexpected factors, such as a lack of macroeconomic control of the textile industry, the chemical fiber knitwear market slumping not long after the equipment was imported and put into operation, repeated increases in the prices of chemical fiber raw materials and cotton yarn, raw material shortages, skyrocketing prices, and foreign trade export obstacles, sharply reduced CKM's profits and taxes from an average of 6.493 million yuan a year during the Sixth Five-Year Plan to an insignificant amount in 1985, and losses of 1.243 million yuan by 1986, for the first losses in its 31 years of operation.

3. The textile industry needs to organically combine enhanced macroeconomic regulation and control to resolve the conflicts of textile production capacity exceeding development, overall surpluses, and supply exceeding demand, with promotion of S&T advances, development of international and domestic markets, acceleration of structural adjustment, improvement of product quality, enhancement of variety of colors and designs, and resolution of the market structural slump problem, in order to reverse its large-scale losses.

CKM went bankrupt because of the dual factors of a lack of macroeconomic control over textiles, and enterprise products not being suited to market demand changes. Macroeconomically, the previous times of textiles being a "money tree" touched off a national textiles fever under the slogan of "state, collective, and individual enterprises all working together," to which tens of thousands of small- and medium-sized textile mills responded, leading to rapid and excessive growth of our textile production capacity in the 1980's. The knitting industry was no exception. In recent years, township and individual private textile mills have suddenly come to the fore, drifting away from effective regulation, control, or oversight by the state or the industry. This has caused a lack of macroeconomic regulation of China's textile industry, with overall surpluses and textile market supply exceeding demand. Incomplete statistics on Chongqing's private knitting industry alone show that it

has over 100 major knitting machines, over 500 sewing machines, and an annual knitwear output of over 11 million garments, or 42.5 percent of Chongqing's 1990 gross output of knitted underwear. These individual private knitting enterprises encircle Chongqing's several large state knitting mills, with over 50 of them in the Chenjiaping District around CKM. They rely on CKM's technical backbone, while competing for its markets with cheaper labor, lower costs and prices, and more flexible operating methods, with some even using fake collective enterprise names to seize policy advantages and tax reductions and exemptions, leaving CKM hopelessly watching them seize its product markets.

As to product mix, after CKM imported its chemical fiber production lines, its production structure changed on one hand, giving it too much and out-of-proportion chemical fiber production capacity. In addition, raw materials shortages, along with not enough production jobs for its warp knitters and dyeing and warping equipment, left it with a severe situation of idle equipment. On the other hand, its product mix was irrational, because it had persisted for many years in making "the same old three shirts" and low- and medium-quality products that were too similar to those of other enterprises, and had not developed knitwear goods that were in short supply and great demand, so that its product markets were steadily replaced by knitted goods from other places. Its overstocked product inventories amounted to 20 million yuan, it was unable to effectively limit its production or reduce its inventory, which tied up its limited working capital, and banks refused to grant it loans, so that it had no money to buy raw materials, it could not continue production, its creditors came pressing for payment, and it was forced to shut down.

4. We need to pay more attention to developing enterprise leadership, particularly in large- and medium-sized enterprises, by putting greater emphasis on the key jobs of choosing the right factory directors and plant managers and stabilizing the ranks of managers and technicians.

Practice has proved that leadership is the key to a well-run socialist enterprise. CKM had no hopes of reversing its losses essentially because of chaos in managing its factory director terms of office. As the parties concerned were not careful enough in assessing the proficiency of and deploying its leadership, CKM had five changes of factory director and four of party committee secretary from 1985 to 1990 alone, with some being bid for in name but actually set internally, so that its employees grumbled that "CKM is a cradle for training factory directors and party secretaries." Every new factory director wanted to "form new cabinets level by level, over and over," and to make large-scale reshufflings of deputies, heads of all three divisions, and mid-level cadres. One even changed his shop foremen and office staff three times in one year, while office staffs, shop foremen, and team and group leaders had to be constantly "optimized." Such merry-go-rounds of leadership and cadre reshuffling certainly did not change

CKM's management chaos or turn its losses into profits. On the contrary, its frequent personnel changes were very unfavorable in helping its cadres and workers to familiarize themselves with conditions, accumulate experience, establish rules and regulations, enhance management, or improve efficiency. CKM's improper cadre deployment and use, with some clearly lacking management skills and experience (only one of its five factory directors had any familiarity with knitwear and weft knitting technology or management), brought such growing chaos and losses to this large enterprise, which had top-grade domestic equipment, strong technical might, and hopes of turning its losses into profits, that it was finally forced to declare bankruptcy. This should teach us a profound and bitter lesson.

5. Enhancing business management and converting operating forces will require real action and efforts to improve enterprise quality and management skills, by basing steadily improving economic efficiency on scientific and sound fundamental management, in order to give enterprises vigor and vitality.

In the midst of the current great wave of deepening of enterprise reform, certain enterprise operators are emphasizing external administration over internal management, which is leaving them with inadequate internal skills, and causing glaring problems of deteriorating business management and poor basic management. The government and business world need to pay much attention to these problems. The key internal causes of CKM's bankruptcy were longstanding chaos in its business management, shown by its inability to convert its operating forces, tap potentials, increase efficiency, or turn losses into profits. This can be seen mainly as follows:

First, its frequent leadership reshufflings and cadre changes created the following severe management consequences: 1) They destabilized its formerly stable team of technicians, managers, and employees, causing a large outflow of personnel, particularly of certain key technicians, which caused great harm to the enterprise. 2) They destabilized its former rules and regulations, which were scientific and in keeping with plant conditions, in areas, such as technical discipline, operating rules, equipment maintenance, quality standards, and management oversight, causing weak basic business management, chaotic group management, inability to fulfill plans, severe quality problems, and constant contract disputes. CKM sustained over 1 million yuan in losses in 1987 alone due to substandard and declining product quality. 3) They destabilized employee values, by sapping morale, freezing enterprise motivation, causing employees to lose confidence in their enterprise's future, and bringing tears to the eyes of senior workers at the very mention of the current state of affairs.

Second, the enterprise was not run legally or well. Plant rules, regulations, and discipline existed in name only, with constant crimes and public security incidents for a time, a wave of thefts in the plant, and internal management being out of control. For instance, it experienced

18 cases of crime and public security incidents from 1984 to 1986, all of which were committed essentially by its own employees. Moreover, many of its cadres and workers got rich through helping outside individual private knitting mills, with some sacrificing enterprise interests to their personal ones, which showed up as minor cases of stealing and selling off of raw materials and parts, and major ones of "getting rich" by reselling enterprise technical intelligence and product designs. There was once a case of a new product that CKM had just developed but not yet produced being produced and marketed by an individual private knitting enterprise in Chenjiaping. Even worse, when a whole cartful of its warehouse stock was pulled out and set up for sale on the street, no one at the mill could even tell the public security police, who discovered and reported it to them, how it could have been stolen and moved out of the mill. In such ways, CKM sustained huge losses.

6. Enterprises must call for the new system to be put into place as quickly as possible, by demanding that the government convert its functions ASAP, in order to legally standardize enterprise operations and government actions, so that enterprises can become truly independent commodity producers and managers. Only in this way will there be hopes of revitalizing large- and medium-sized state enterprises.

I believe that CKM is quite typical, with a large number of such enterprises losing and near-bankruptcy enterprises in Chongqing and throughout China, which number is even larger if hidden losses are included. As opposed to the hundreds of thousands of those that are profitmaking, these enterprises just scraping along on the verge of bankruptcy have an even more pressing need to speed up their pace of reform, so that they can survive in line with national industrial policy, by either adjusting their structures and turning their losses into profits, or closing, suspending operations, merging, or switching to manufacture of other products, so that they can die and be reborn. They are shouting for the new business management system, and hoping that the government will convert its functions as quickly as possible, by fully implementing the rights and interests granted to enterprises in the *Enterprise Law*, so that they can truly become independently operated with the sole responsibility for both their profits and losses, and with operating forces that lead to self-restraint and allow self-development. This is the only way that we can revitalize our many large- and medium-sized state enterprises that are sustaining overt or covert losses.

In addition to its poor internal management and administration, CKM's bankruptcy was also due to the following external factors: 1) The textile management system is out of order, with many horizontal and vertical divisions, which are detrimental to enhanced trade management. For instance, in Chongqing, municipal state knitting mills, such as CKM, are under the jurisdiction of the municipal textiles bureau, collective knitting enterprises are under the classified management of the municipal knitting office, township knitting enterprises

are controlled by the township enterprise bureau, individual and private knitting enterprises come under industrial-commercial bureau management, and "the three kinds of foreign trade enterprises" fall into the overseas Chinese category, so that no one unit is charged with overall planning for, coordinated guidance of, or oversight service to the knitting industry throughout Chongqing. Industrial management is so weak that these "mothers-in-law" can hardly plan its development scientifically, leaving the knitting industry with mounting problems, increasingly glaring structural conflicts, and unfair knitwear market competition, and state knitting enterprises with severely weakened might and status, deteriorating efficiency, and consecutive years of losses, which are causing a great drain on state assets and increasing enterprise debts. 2) In all major decisions, such as importing of equipment, a problem certainly exists of these "mother-in-laws" directly interfering and acting on behalf of factory directors and plant managers, which leaves enterprises in a subordinate, passive position. Even when the higher-ups make wrong decisions, enterprises are forced to go along with them. 3) There is a glaring problem of substituting contracting for better management, with the higher authorities often relying on administrative means, contract management responsibility system contracts, conference documents, and replacement of factory directors to administer enterprises and guide their operations. Fair competition forces have not been introduced to the process of selecting administrators, with plant managers being completely subordinate to these "mothers-in-law." In addition, contract management responsibility system contracts are not standardized, so that government officials, enterprise operators, and producers still have no substantive restraints as to enterprise profits or losses, with losses being of state assets, working capital, and bank loans so that, when enterprises sustain losses, they continue to pay wages and bonuses anyhow, meaning that there is neither pressure or naturally motivation either. As time passes, the concept of efficiency becomes meaningless, so that, when enterprises' lifeblood has been drained, they naturally collapse.

As large- and medium-sized state enterprises are the major sources of state revenue and taxes, enterprise bankruptcy causes losses to state assets, and employees also lose their reliable carrier. Faced with the current grim reality of enterprise bankruptcy, government officials and enterprise employees are all tasting its bitter fruits. So we have reached the consensus through bitter reflection that enterprises in a commodity economy are like ships sailing in a great sea where, if the "helmsman" does not steer an even course, and the "oarsmen" do not row together with one heart, the ship may sink at any time. This means that in pushing enterprises toward a market economy, the government must pay more attention to macroeconomic control and policy legality, while enterprises need to make greater efforts to improve their internal mechanisms and management and administration. Of course, in the process of revitalizing large- and medium-sized state enterprises, we cannot ignore the

current state of their lack of stamina and our weakened state economy. The thing to do is to deepen reform, by speeding up the conversion of government functions and enterprise operating forces, and through establishing operating forces of fair competition, mutual cooperation, coexistence, and co-prosperity, where public ownership dominates, but where there is an organic combination of diversified economic components. In a commodity economy, employees are an enterprise's masters and production operators, as well as the beneficiaries of reform and opening up and the undertakers of operating risks. It is only when they change their thinking, work conscientiously, arouse their sense of responsibility, mission, and crisis as the masters, work together at all levels, and develop their enterprises into a profitable business community where state, collectives, and individual interests "are one," and where there is a unity of responsibilities, rights, and interests, that they can run socialist enterprises well and create more material wealth for society, in order to strengthen our overall national might.

Bankruptcy is not the end of things, for, just as life and death are a mutual transformation, an enterprise's bankruptcy carries the seeds of another's new emergence. The key thing is that CKM's bankruptcy is posing the profound question to our people, all parties in our society, and particularly to our theorists and businessmen of "what is the route that we should take in the future?!"

## FINANCE, BANKING

### Financial Institutions Support Enterprise Reform

#### Banks Push Markets

92CE0038A Beijing JINRONG SHIBAO in Chinese  
24 Sep 92 p 1

[Article by Yan Honglin (7051 3163 2651) and Zhang Zhihe (1728 1807 0735): "How Banks Can Help Make Enterprises More Market-Oriented—An Earnest Discussion of Views by Well-Known Entrepreneurs"]

[Text] *Editor's note: China's 1992 reform priority is enterprise reform, the key to which is converting the operating forces of large- and mid-size state-owned enterprises. The publication of the "Regulations on Converting the Operating Forces of State-Owned Industrial Enterprises" has provided a reliable legal basis for this conversion. State Council leaders have shown great concern about this conversion, by proposing that these "Regulations" must be implemented very conscientiously. Our banking system is duty-bound to implement the "Regulations." The current issue is how we can take advantage of the driving force of Comrade Deng Xiaoping's speeches on his southern tour this spring to speed up the pace of banking reform, by working in coordination with all pertinent sectors to promote the implementation of the "Regulations" to contribute to the conversion of enterprise operating forces and help make enterprises more market-oriented. To help accomplish this, JINRONG*

*SHIBAO recently held a conference in Hebei, to which it invited well-known entrepreneurs, such as Zhang Xingrang and Lang Baoxiang, leaders of the provincial government and system reform commission, and the banking leadership, to freely discuss their views and recommendations on how to carry out related banking reforms to help in the implementation of the "Regulations." While this discussion was about only one province, it was of widespread significance, so will be of great help to us in better deepening our banking reform. JINRONG SHIBAO will carry the contents of this discussion in a series of three related articles starting with today's. [end editor's note]*

**Zhang Xingrang [1728 5281 6245] (Director of the No 1 Plastics Factory in Shijiazhuang):** The "Regulations" are driving enterprises toward a market economy, by pressing them to convert their operating forces and enhance their internal management. For enterprises to become more market-oriented, their financing must also be made more market-oriented, without which becoming more market-oriented would be mere idle talk. The banking sector must speed up its pace of reform, through reforming and dropping its old "bureaucratic" and "feudal" workstyle in favor of modern operations. In its control of monetary policy, it should act in accordance with the principles of "dealing with each case on its merits, and selecting and supporting excellence" to add to its force and weight. It should help to further invigorate and properly deregulate well-run enterprises, provide controlled support to those that are now in trouble but can be turned around in the future, but tighten down some on those with unmarketable products and severe immediate and potential losses, and even allow some to go bankrupt and die out to achieve selection of excellence by elimination through competition. "Tightening down" is the basis for "invigoration," which is the aim of "tightening down," making them mutually complementary. In light of my factory's realities, I believe that the banking system's current major problem is poor quality of service, with staff skills and workstyles that are unsuited to the needs of a socialist market economy. As one glaring problem is that fund accounts settlement takes too long and has too many links, creating a waste of funds en-route that cannot be utilized, I am calling once again on the banking sector for stricter accounts settlement regulations and discipline.

**Zhang Ximin [1728 6932 3046] (President of the Textiles Industrial Group Corp in Shijiazhuang):** I would like to speak today about the matter of losing enterprises. As it is now very hard for losing enterprises to borrow money, banks should analyze and break them down into those that should be allowed to die out and those that can be revitalized. I think that banks could buy and redevelop some enterprises, and come up with ways to resupport them. Certain small ones in particular that cannot be revitalized should be allowed to die out instead of being kept in a state of limbo. I would like to note that bank operations need not be aimed purely at profitmaking because, while banks need to make profits, it need not be their one and only objective. For instance, some enterprises can be revitalized only if banks extend them credit

to give them time to rest and build up their strength. Support for enterprise development also paves the way for future bank development.

**Han Guoming** [7281 0948 2494] (Director of the Shijiazhuang Cigarette Factory): While both the province and cities are grasping the "Regulations," various enterprises understand them differently. As banks are also enterprises, they should take major steps to make ideological breakthroughs. I feel that bank-enterprise relations should be like those in the Shijiazhuang branch of the Industrial and Commercial Bank of China (ICBOC), where the Bank-Enterprise Coordination Committee organizes, coordinates, and consults on all relations and problems, so that enterprises feel that they are one with the bank. Banks need to overcome their "superior" mindset, so that enterprises are not "cowed" by the mere mention of banks. As enterprises encounter many difficulties in becoming more market-oriented, they will have trouble making any progress at all unless the banking system makes major ideological advances and takes significant reform steps. In implementing the "Regulations," banks need to do away with the word "fear," by borrowing from advanced international experience in letting go, taking in, digesting, and assimilating to make this experience their own. They must not be so afraid of the very mention of capitalist things, or keep going around in circles over the distinctions between "capitalist" and "socialist."

**Xu Guofeng** [6079 0948 1496] (President of the Hebei branch of the People's Bank of China [PBOC]): Our aim is to push enterprises toward markets to revitalize them, and our goal is to enable them to "operate independently, be responsible for both their profits and losses, and grow on their own with self-restraint." If banks are to help make enterprises more market-oriented through helping them convert their operating forces, they must study many issues conscientiously. Why do banks refuse to make loans to losing enterprises? This is because most of bank capital sources are individual savings (accounting for 68 percent in Hebei), which must be guaranteed to be repaid on time. My personal view is that we should support the profitmaking products of losing enterprises but not the ones that are produced and then overstocked, not make loans to enterprises with good social benefits but poor economic efficiency, provide conditional support to those with good social benefits and average economic efficiency, and vigorously support those with both good social benefits and high economic efficiency. As to the clearing up of "triangular debt" that has been underway for some years, while we have achieved a certain amount of success, we have still not thoroughly solved the problem of its recurrence. This involves system and mechanical problems, in that enterprises have been unable to establish market forces, quality problems, in that enterprises have outdated technology and equipment and deficient operating capability, and legal problems, in that there is no way to resolve disputes over debts.

**Zhang Ximin**: Banks should help enterprises with certain developments, such as new product varieties and new industries. Banks need to diversify their operations by expanding their business scope. In the current conversion of enterprise operating forces, banks must provide genuine and practical service.

**Xu Guofeng**: If specialized banks were turned into commercial banks, they could buy enterprises. Their ability to buy depends on their risk capability and relevant national policy permission.

**Yao Weiping** [1202 5598 1627] (President of the Shijiazhuang branch of the ICBOC): As banks used to do too much controlling and provide too little service, the ICBOC needs to make a gradual transition from a policy bank to a commercial one. We need to strive for maximum profits, because bank profits reflect our product-capital efficiency. As bank assets are now much too singular with little option, our business operations should reflect national policy directions, but not specific policy operations.

**Niu Zhiguo** [3662 1807 0948] (Chief Financial Affairs Officer at the Long March Rubber Overshoes Factory in Shijiazhuang): The aftertax loan repayment problem has never been settled, so that pretax loan repayment is actually making the state take most of the risks. As there is a conflict in enterprises being responsible for operations as well as employee welfare, they should take better stock of their resources.

**Li Zuiying** [2621 2584 5391] (Chief Financial Affairs Officer at the Shijiazhuang Water Pump Factory): While my factory's efficiency is now not bad, additional loans have added to our burdens, forcing us to pay 4 million yuan a year in interest, so that we have a pressing need for capital stimulus. Of our enterprise's "three funds," finished product funds have decreased, while we are producing 7 million yuan more of commodities, or 40 million yuan worth. As this includes 17 million yuan of groundless refused payments (on grounds, such as "dishonored for lack of funds," "refused because the goods have not been delivered," "refused because there is no such enterprise," and "refused due to a lack of contract") due to a problem of bank accounts settlement discipline, I am calling on banks throughout the country to exercise stricter accounts settlement discipline, by transferring money where enterprises have accounts, instead of practicing regional protectionism.

**Xu Guofeng**: We could practice methods, such as futures and commercial notes, with enterprises that are willing to delay collections discounting notes, which specialized banks then rediscount at the central bank to break up part of our "triangular debt" logjam. Enterprises could report banks that violate accounts settlement discipline to the central bank, which would deal with such violations strictly according to actual circumstances.

**Lang Baoxiang** [6745 1405 4382] (President of the Huanyu Electronics Group Corp): Generally speaking, relations between the banking sector and enterprises are

quite sound, with our enterprise having very good relations with the ICBOC. The Huanyu Corp is now in a difficult period, and we will be able to complete our product mix adjustment only by the end of 1992 or in the first half of 1993. A key banking reform matter is the need to support key and new high-tech products that have a future.

**Liu Kuanzhi [0491 1401 1807] (General Accountant at the North China Pharmaceutical Factory):** For banks to become more businesslike, they must observe market economy laws. Banks must separate their national policy functions from their business operations, practice compensated capital use, expand their fields of business, and practice more flexible operating methods. Capital use must be classified as one state-prescribed, and two intermediately needing adjustment, which should be distinguished by interest rates and time periods. We should provide special interest rates for special-use loans to make this capital more commercialized and adaptable to changing market conditions. As to whether loans should be granted to losing enterprises or for overstocked products, I have a differing view. Markets change instead of being constant, so that overstocked and hot-selling commodities are a mutual transformation. In fact, the better its products sell, the less an enterprise needs funds, so that we should provide support for overstocked products that have a future.

### Money Markets Improve

93CE0038B Beijing JINRONG SHIBAO in Chinese  
25 Sep 92 p 1

[Article by Yan Honglin and Zhang Zhihe: "On Developing and Improving Financial Markets"]

[Text] *Editor's note: Hebei Vice Governor Song Shuhua and a System Reform Commission official note that banks and governments in all areas should make great efforts to implement the "Regulations," in order to give enterprises more flexibility and independence in acquiring urgently needed funds, so that they will look to markets instead of mayors. [end editor's note]*

**Song Shuhua [1345 0647 5478] (Hebei Vice Governor):** The publication and enforcement of the "Regulations" is a key step in implementing Comrade Deng Xiaoping's speeches on his southern tour this spring and the "Enterprise Law." Hebei Province has just started a topdown campaign of thorough study, publicity, implementation, and enforcement of the "Regulations." All government departments at all levels are focusing their attention on converting their government functions, by changing their workstyles, streamlining their administration, and devolving authority, so that they can provide more active service to enterprises, while all mining and manufacturing enterprises are devoting their efforts to converting their operating forces to make the transition to a market economy. This process of "two conversions and one transition" is giving the banking sector a new mission. Banks should adapt to this change, by bringing

their leverage role into full play. Banks now need to work hard at the following four adaptations, in order to speed things up in four areas:

1. Banks need to adapt to enterprise needs in a market economy. As a key plank in making enterprises more market-oriented is enabling them to enter financial markets, the banking sector should provide a good financing climate for enterprises in a market economy.
2. Banks need to adapt to the needs of diversified economic components. As we are practicing a socialist market economy in which diversified economic components coexist, the banking sector should provide active financing for the healthy growth of all economic components.
3. Banks need to adapt to the needs of diversified capital structures. The banking sector should establish diversified financial capital and money markets for enterprise growth.
4. Banks need to adapt to the needs for better and faster economic upgrading. As there can be no output without input, economic upgrading will require banks to deepen reform, by broadening their financing means and fundraising channels to invigorate capital.

The banking sector should act to speed up the conversion of enterprise operating forces. We hope that the banking sector will take major steps, such as improving its macrofinancial regulation and control mechanisms, making specialized banks more businesslike, experimenting with floating capital interest rates, and vigorously developing money markets. The banking sector should work to speed up economic structural adjustment. Banks need to adhere to the principles of supporting excellence, weeding out inferiority, and dealing with each case on its merits, by acting in accordance with national industrial policies and market economy needs to slant credit capital toward key industries, enterprises, and products, and basic and new high-tech industries, so that they can play an active role in guiding and driving adjustments of industrial and enterprise structures and product mixes. The banking sector needs to help speed up the improvement of capital performance. Much attention must be paid to improving investment efficiency, by practicing an investment responsibility system and accepting investment loss risks to reduce mistakes and waste and achieve maximum capital performance. As the "Regulations" give enterprises the right to keep and budget their own funds, all enterprises must make careful decisions, so that they can avoid duplicate and unchecked development and use their funds well, as well as enhancing their business management, by emphasizing capital formation, accumulation and use, improving efficiency, and invigorating fund performance.

**Wang Ruisen [3769 3843 5358] (Deputy Director of the Hebei System Reform Commission):** As to our implementation of the "Regulations" throughout Hebei, leaders at all levels have paid much attention, party committees and governments have acted in concert, and all have emphasized weak links. We first emphasize the devolving of authority to lower administrative levels,

with most localities instructing their key departments to present detailed and serviceable views in accordance with the "Regulations." Governments at all levels throughout Hebei are now undertaking the following "three inventories": 1. We are taking stock of our ideas. While government used to control everything, with the case always being that "whatever I say goes," we are now emphasizing legal means to standardize government-enterprise relations. 2. We are sorting out our documents. This involves mainly "establishing, changing, and discarding," i.e., "establishing" new ones, "changing" wrong ones, and "discarding" those that violate the spirit of the "Regulations." 3. We are clearing up our government functions. We are evaluating one by one which matters we should actually attend to, and which we should not. All provincial departments and bureaus have organized and sent over 300 government functionaries to thoroughly investigate enterprises. We are also planning to organize all key departmental officials to propose subjects for investigation. We now have over 1,400 enterprises throughout Hebei that are experimenting with conversion of operating forces, with all having made varying degrees of progress.

The most important banking reform is developing and improving our money markets. Our future orientation is to make enterprise growth truly dependent on markets. While money markets are a crucial part of key production element markets, they are developing too slowly.

While working capital can now be found everywhere, banks are its only truly reliable source for enterprises. To make enterprises look to markets instead of mayors, we need the relevant money markets. As enterprises become more market-oriented does not mean setting up stalls in rural markets, we need to steadily invigorate markets, such as money, property rights, real estate, labor, technology, and social security. In developing and improving money markets, the banking sector has a heavy responsibility.

#### Bank Management Improves

93CE0038C Beijing JINRONG SHIBAO in Chinese  
28 Sep 92 p 1

[Article by Yan Honglin and Zhang Zhihe: "On Following Markets To Become More Efficient"]

[Text] *Editor's note: For enterprises to implement the "Regulations," they need the special participation and close cooperation of banks. How should banks respond to enterprises' appeals for help? Hebei banking officials comment that banks must contribute to an efficient market economy. [end editor's note]*

**Xie Xianhua [6200 3759 5478] (Vice President of the Hebei branch of the PBOC):** In the course of implementing the "Regulations," enterprises are now widely reporting problems of bank accounts settlement. This matter was brought up by the abovementioned leaders of certain enterprises. We need to make a fully objective evaluation of this issue. It should be pointed out that

through a nationwide reorganization of accounts settlement order and discipline, bank accounts settlement has clearly improved in quality to gradually become more institutional, standard, and normal. But while the concept of rigorous accounts settlement discipline has become deepseated, with collection and payment of accounts having become more normal, surveys and reports from some enterprises show that accounts settlement management is certainly not improving evenly among banks at all levels. Accounts settlement is uneven at grass-roots business agencies, with some banking units and accounts settlement links still containing loopholes and blind spots, which cause problems, such as man-made cut-price notes or delayed payments and duplicate collections. The Hebei branch of the PBOC at all levels has now set up accounts settlement violation reporting centers, so that when problems occur at the abovementioned branches and agencies, they can be dealt with severely according to regulations as soon as they are discovered.

The accounts settlement problems that enterprises are reporting most remain too many accounts settlement links and too long en-route fund time. These problems are actually due mainly to our unique joint-banking system for all banks, and are concentrated in the area of inter-system accounts settlement. To solve them, the banking sector needs to work to reform the joint-banking system. In 1991, the PBOC head office carried out a nationwide joint-banking reform, beginning by setting up nationwide electronic joint-banking through satellite communications, which when completed, will link up over 300 regional and municipal (including provincial capital) ground satellite reception stations throughout the country with the head office, to form a nationwide accounts settlement and fund clearance system that will shorten accounts settlement en-route fund time. Meanwhile, to smooth out accounts settlement channels below the county level, most Hebei counties have adopted county-level general account-transfer checks, which has also reduced accounts settlement links and en-route fund time.

**Qi Baoqun [7871 1405 5028] (President of the Hebei branch of the ICBOC):** The publication and implementation of the "Regulations" is a major reform for China's state-owned industrial enterprise management, as well as a key step in driving enterprises to become more market-oriented and developing a socialist market economy. As a general sector of the national economy that serves enterprises directly, banks need to take the initiative in adapting, participating, and pushing enterprises to convert their operating forces to ensure the healthy development of this great reform. This is necessary so that banks can serve overall reform and opening up, as well as being a crucial part of bank self-development.

Focused on the central task of helping enterprises to convert their operating forces, and in firm support of helping enterprises to become more market-oriented, banks need to focus their efforts on speeding up credit management reform, by breaking thoroughly with the

old system where all enterprises ate out of the one big pot of bank credit funds. Loans must become market-oriented and more efficient. For banks to help enterprises become more market-oriented, they must observe the market law of selection of excellence by elimination through competition. Banks must stop supporting enterprises that are eliminated through market competition, because protecting inferior enterprises by granting them loans holds back advanced ones. As funds are the value form of commodities, and the amount of funds that an enterprise has shows the share of commodities that it has in social reproduction, not "putting the axe to" the credit fund distribution system of everyone eating out of one big pot would make pushing enterprises toward a market economy mere idle talk. Turning enterprise operating risks and losses into bank credit fund risks and losses, so that they ultimately remain national asset losses, makes it impossible for enterprises to become genuine commodity producers and managers that are responsible for their own risks, profits, and losses. Thus, banks must adapt to the new situation, by observing market economy and bank operation laws, and by establishing new credit management forces. We need to focus our funds on providing all-out support to enterprises that conform to industrial policy, pass the market test, and have good economic efficiency, while promptly deciding to tighten down rigorously on loans to those that "have neither immediate ricebowls or long-range prospects" and are bound to fail in market competition, by steadily cutting down their existing loans, and adjusting their credit structures with increased force.

**Huo Zhenxing** [7202 2182 5281] (Vice President of the Hebei branch of the ICBOC and President of the Shijiazhuang branch of the ICBOC): The ICBOC needs to adapt as quickly as possible to the needs of reform, opening up, and a market economy, by steadily deepening its banking reforms, accelerating its own "conversion," relying on cities, making large- and mid-size enterprises dominant, and focusing on improvement of economic efficiency, in adhering to a strategy of giving equal emphasis to traditional and developing business, indirect and direct financing, business and service operations, and domestic and international business, in order to provide active service to the development of a market economy. We need to emphasize the following jobs: 1. We need to better free up our thinking and change our ideas, by making daring breakthroughs, conducting innovative experiments, and taking bold actions on all matters that are in keeping with "the three advantages." 2. Based on consolidating and developing our traditional businesses, we need to vigorously develop new ones, such as real estate, credit cards, international service, mortgages, trust investment, and middleman service, in order to constantly expand our fields of business and enhance our economic infiltration and service functions. 3. We need to organize and develop money markets as quickly as possible, by developing away from a single form of indirect financing to one that combines both direct and indirect financing, and expanding our financing channels, in order to drive enterprises toward markets and

promote a more rational circulation of key production elements. 4. We need to bring our bank credit advantages into full play, by attracting foreign investment for large-scale cooperation, in order to become more competitive. 5. We need to change our current single form of credit capital, by actively exploring the route of investment in enterprise stocks and the creation of a banking-enterprise community, in order to gradually merge financial and industrial capital and improve our capital performance. 6. We need to establish and perfect credit capital risk forces, and strive to improve our assets quality and operating efficiency.

**Du Guozhi** [2629 0948 2535] (Head of the Industrial Credit Office of the Hebei branch of the ICBOC): Implementing the "Regulations," in order to help enterprises convert their operating forces and become more market-oriented, is giving banks a new mission, as well as presenting new problems that need to be solved by the business sector. As enterprises become more market-oriented, some will go bankrupt, which brings up the problem of what to do about their existing loans. While the "Regulations" provide that enterprises can either lease out or transfer their original assets, leasing out may be possible, but what about transfer? All of these matters involve the banking sector.

**Wang Yizhang** [3769 5030 4545] (Deputy Director of the System Reform Office in the Hebei branch of the ICBOC): Implementing the "Regulations" will require solving the following two major problems: 1. Government functions need to be converted. Most of the 14 articles on devolving authority to lower administrative levels involve a conversion of government functions, which unless it occurs, will make implementation of the "Regulations" mere idle talk. 2. Overall complete reforms are essential, without which there can be basically no implementation. The conversion of banking functions depends on achieving the following two general aims: 1. The central bank's authoritative and legal position must be established, so that it can skilfully wield its regulation and control capability. 2. Specialized banks must become more businesslike and commercial, so that they can become real commercial banks, to deal with one major business in a diversified economy. Specialized banks should act on the management principle of striving to maximize profits, and establish relations with other enterprises of equality and independence. Specialized bank functions are now administrative, with state revenue credit input, lacking the businesslike operations of specialized banks. Today's bank presidents spend their work time not watching money markets, but rather reading documents and holding meetings. This is because it does not matter whether they watch money markets or not, as they are in charge of national banks, and do not have any real individual responsibility. To revitalize our economy, we need to first revitalize our banks.

## SMALL-SCALE ENTERPRISES

### Development of Central, West Town Enterprises Urged

93CE0054A Beijing JINGJI RIBAO in Chinese  
29 Sep 92 p 2

[Article by Wang Yuzhao, affiliated with the Development Research Center of the State Council: "Promote the Development of Township Enterprises in Central, Western Regions"]

[Text] If the household contract system has fully demonstrated the Chinese peasants' creativity in breaking away from the old system, and selecting a new system, then similarly, township enterprises have fully demonstrated the Chinese peasants' creativity in overcoming poverty and developing new productive forces. Before reform, our basic thinking was to first let the countryside provide accumulations for urban industries, and then let the urban industries, once developed, equip and upgrade rural agriculture, so as to make the peasants rich. After several decades, that thinking did not result in much success. Since reform, under the condition of no direct support from the state in terms of funding and materials, the peasants exploited the rather relaxed policy climate to develop nonagricultural—mainly industrial—businesses with their own resources. In this way, they resolved the employment problem, increased income, and advanced the modernization of the rural areas. This is in essence a kind of successful economic self-emancipation achieved by the peasants. Presently, China still has around 80 percent of its population in rural areas. Doubtlessly, a fundamental component of socialism with Chinese characteristics has to be the success in resolving problems involving this 80 percent of the population. Development of township enterprises has provided a very hopeful way of resolving the problems involving the peasants and achieving the overall revitalization of the rural economy, and has thus become an important part of building socialism with Chinese characteristics. As another great example of the Chinese peasants' creativity, township enterprises are also a great historical contribution made by the Chinese peasants to the construction of socialism with Chinese characteristics.

The goal of China's economic structural reform is to build a system of market economy under socialism. Because of many factors, it was in that direction that township enterprises got started and developed from the very beginning. Township enterprises exist outside the system of direct state planning, and all of their economic activities are conducted in the market. The amount of production is basically determined by the situation of marketing. They have strong marketing capabilities. In terms of business operation, they have entirely independent responsibility for profit or loss, independent responsibility for operation, and independent responsibility for taking risks. Township enterprises are market-oriented, and are equipped with the essential qualities of

enterprise organizations under market conditions. As a result of being born market-oriented, they have rather strong capabilities of adapting to changes in the market. Due to their flexible employment mechanisms, their employees are rather capable of bearing the consequences of the enterprises' closure, suspension of operation, merger or changing lines of business. Consequently, their operating mechanism shows more vitality than that of state enterprises governed by a highly centralized planning system. The emergence and development of township enterprises show that it is possible to practice market economy under socialism, and have also provided living, concrete, and practical experience that can help further efforts to build a system of market economy under socialism.

Township enterprises do not have a long history, and inevitably have problems of one kind or another. From an overall perspective, they started from rather low standards; from a macro-level perspective, they are not distributed around the country in a rational way; and enterprises are different in terms of the quality of business management. Some enterprises are managed in a rather disorderly manner, and thus economic efficiency is not ideal. Nationwide, the regional unevenness in the development of township enterprises is a rather prominent problem, and has become an important factor constraining the overall development of the rural economy. Township enterprises are developed well in the east, but less so in the central regions; the western regions are lagging behind. It may be said that the gap between the eastern and the western regions in rural economic development is not mainly the gap in the area of farming but in the area of township enterprises. The status of development of township enterprises has become a key indicator of the level of development of a region's rural economy. Currently, nationwide peasants get 40 percent of their income from nonagricultural businesses, but in the developed coastal regions peasants get 80 percent of their income from township enterprises. The gross value of output of township enterprises of the western regions accounts for less than 5 percent of the gross value of output of township enterprises nationwide. Therefore, to achieve the objectives of the second-step strategy so as to make people of the entire country able to lead the comfortable life, it is imperative to vigorously develop township enterprises. It is especially necessary to promote the development of township enterprises in the central and western regions.

With regard to developing township enterprises in the future, especially in the less developed regions, it is still necessary to put special emphasis on giving play to the creative spirit of the peasant masses, and adopt the approach of developing township enterprises with the efforts of tens of thousands of households to achieve township enterprise development of a greater scale and higher standards.

Rely on the efforts of tens of thousands of households to build enterprises, adopt the approach of encouraging all

four kinds of enterprises—household-run, joint-household-run, village-run, and township-run—so that small, medium-sized, and large enterprises can all develop. It is especially necessary for the less developed regions to adopt this approach. At the same time, counties, townships and villages should try to start some lead projects. Those with conditions should try as much as possible to make sure that they start with high standards and achieve leaps in development so as to close the gap between the developed regions and themselves. The lead projects can be built after there is a base of household-run and joint-household-run enterprises. Or, the lead projects can be built first, and then tens of thousands of households will get involved. Lead projects can be built with help from cities in the radius or horizontal cooperation, and thus exist mainly to serve big urban industries in a form of urban-rural cooperation; or the lead projects can also be foreign-funded enterprises built on the basis of foreign investment, and develop export oriented economy. In short, it is necessary to proceed on the basis of considerations of the actual situation, and to start whatever projects that are feasible.

Develop small specialized industrial zones with the efforts of tens of thousands of households, make each village specialize in one product, and make each township specialize in one or more products to have an advantage in terms of a large quantity of each product, and develop regional economy. With the support of nearby small towns, tracts of land can be turned into development zones, so as to attract industrialists and traders to open factories and stores there. This approach can both promote the construction of small towns and economic prosperity, and be conducive to reducing expenditures on infrastructure construction and combatting pollution.

Develop the market with the efforts of tens of thousands of households. The market not only is where commodities are exchanged, but also plays an important role of guidance, thereby helping allocate society's resources on a rational basis. It is necessary to organize many specialized markets and wholesale markets in accordance with the needs of economic development, on the basis of managing well the primary markets for farm goods in the rural areas. Markets can be organized on the basis of funds widely gathered, and tens of thousands of households may be attracted to set up stalls in the markets; some economic entities, various trading firms and specialized companies can also be organized so as to invigorate the circulation of goods.

Solve financial difficulties with the efforts of tens of thousands of households. Township enterprises have even more serious financial difficulties than state enterprises. In addition to trying as hard as possible to obtain loans, it is necessary to rely on the tens of thousands of households, and gather funds by collecting funds from many people or by using the joint-stock system. The peasant cooperation funds established in the last few years can play a large role. Currently, one-third of townships nationwide have such funding associations

which have now gathered 10 billion yuan. Some provinces have established township enterprise funds as province-level institutions. Such methods can collect peasants' surplus funds to be used in developing township enterprises. In the long run, however, township enterprises still have to have their own financial organizations. We believe that with the further development of township enterprises, financial organizations such as township enterprise investment companies, and township enterprise banks will emerge and develop sooner or later.

To develop township enterprises, it is necessary to rely on the progress in science and technology, and to continually improve the quality of employees. At present, college graduates only account for 0.42 percent of the work force of the township enterprises; those with technical school diplomas only account for 3.4 percent of the work force. Such a situation cannot meet the needs of the rapid development of township enterprises. Therefore, township enterprises must open many colleges and various technical schools of their own, and at the same time, give emphasis to employee training to continually improve the quality of employees.

## LABOR

### Workers Discontent With Labor Reform

93CE0076A Hong Kong KAIFANG [OPEN MAGAZINE] in Chinese No 8, 18 Aug 92 pp 38-39

[Article by Mei Zi: "Working Class Discontent With Reform—Difficult Situation in Labor Reform on the Mainland"]

[Text] With the acceleration of the movement of state enterprises toward the market, the mainland will see a huge number of jobless people this year. If those people are not quickly absorbed by the briskly developing economy, there could be turmoil, which could even devour reform achievements.

The biggest enemy of Deng Xiaoping's ambitious economic reform program may not be the powerful, influential conservatives in the party who hold on obstinately to Marxist-Leninist orthodoxy, but the tens of millions of workers of state enterprises who may lose their rice bowl in the great tide of reform. If authorities cannot formulate effective accommodating measures, resistance from the latter could derail the reform effort.

### State Enterprise Reform Eliminates at Least 50 Million Jobs

There were 145 million people in the mainland's urban work force at the end of 1991. Of those, 106 million—or 73.5 percent—were employees of state enterprises, which accounts for nearly 10 percent of the total population of the mainland. The attitude of such a large number of people toward reform will to a great extent

determine the direction and fate of reform. Unfortunately, they bear the brunt of the impact of reform.

A main factor contributing to the state enterprises' low efficiency and management difficulties is overstaffing, with an unimaginable number of employees idle.

Recently in a speech Vice-Premier Zhu Rongji revealed that Anshan Steel and Baoshan Steel have the same amount of production. But the former has 220,000 employees, and Baoshan Steel has only 40,000. Judged by the standard of Baoshan which itself is not high in efficiency, Anshan Steel Corporation has as many as 180,000 employees who are idle and supported by the labor of the other 40,000 employees.

Sichuan's structural reform commission once told foreign reporters that to have mainland's state enterprises reach western standards of production efficiency, it is necessary to eliminate one-third or even half of the jobs in those enterprises. Zhu Rongji also believes it necessary to eliminate at least half of the jobs in the mainland's state enterprises, that is, 50 million jobs. But some mainland economists believe that this figure is still too conservative, and can only be considered the minimum. To really make state enterprises competitive in the market, it is necessary to eliminate about 70 percent of the jobs in those enterprises, that is, 70 million jobs.

#### **The Three Irons Are Unbearable to Society**

Nevertheless, to eliminate so many jobs in state enterprises would obviously be unbearable to society.

Encouraged by Deng Xiaoping's inspections of the south and Capital Steel, the CPC wanted to push state enterprises into the market totally, so as to make them operate completely through enterprise operating mechanisms based on independent responsibility for profit or loss. Labor reform measures were put forward, that is, the campaign to smash the three irons (iron rice bowl, iron wages, and iron armchair) for state enterprise employees.

However up to now, only one million state enterprise employees have lost their jobs due to the campaign to smash the three irons. This figure is simply insignificant, compared with the 70 million jobs that should be eliminated. Such an event would be considered usual in countries with a free economy, but has caused unimaginably strong social tremors in the Chinese mainland's society which has got used to a lifelong-employment system in the last few decades.

On the mainland, employees of plants that lose public ownership status will suffer losses not only in terms of wage income and welfare benefits, but also in terms of their sense of security and social status. Therefore, employees of mainland's state enterprises feel very strongly against the campaign to smash the "three irons," and believe that the working class is "hurt before getting any benefits" in the reform. An official report of the CPC government also admits that nationwide at least two-thirds of the employees are discontent with labor

reform. Although the Chinese media reports only good news but not the bad news ever since the 4 June incident, there have been some occasional reports of incidents in which workers retaliated against plant managers, and rioted because of the labor reform or bankruptcies.

#### **Workers Resist Reform With Violence and Trouble-Making**

Recently, there was a shocking incidence of bloody revenge carried out by a laid-off worker in Xingyi City, Guizhou. On 13 June, Dong Jiafei, a worker in that city, carried out revenge with acts of violence, because of grievances over being fired by his company. He ignited an explosive device, resulting in seven people dead and thirteen wounded. Among the dead were Dong Jiafei himself and four managers of the company.

What is the most frightening to the authorities is the possibility of labor unrest staged by workers worried about their future. When interviewed by SHANGHAI FAZHI BAO on 15 June, the director of Shanghai's Public Security Bureau Zhu Daren revealed that in the city discontent with enterprise reform has led to many incidents of strike, sit-ins, applying for demonstration permits, besieging plant managers, and even forcing the shut down of production. In Liaoning Province, there were also many reports of incidents of workers making trouble or assaulting plant managers due to discontent with the reform in June.

This year, angry workers of a watch factory in Tianjin stormed into the factory, and vandalized the factory extensively, so as to express their grievances against the reform.

#### **Strike in Chongqing Alarms the Capital**

The most serious known incident was the strike in June in a knitwear factory in Chongqing. Because of huge losses incurred by the factory, the authorities approved its bankruptcy. Hundreds of terrified workers besieged the factory, and occupied workshops during a protest strike. They also detained the director of the Textile Industry Bureau sent by the municipality to negotiate and reconcile the differences. In the end, the secretary of the municipal CPC committee went in person to the factory, and pledged to the workers that no employee would become jobless because of the closure of the factory, thereby ending the disturbance.

At that time, this event not only shocked the entire city, but also alarmed the CPC top leadership in Beijing.

Naturally, the CPC is silent on the matter of how many cases of labor unrest and crime due to reform measures' infringement on workers' interest there have really been this year on the mainland. But there is reason to believe that the figure is not very small, and that the situation is rather grave. This has been indicated by the fact that the CPC wavered for a time in its determination on labor reform.

### The CPC Wavered in Determination To Smash the Three Irons

On 8 June LIAONING RIBAO quoted a provincial structural reform commission official as saying that smashing the three irons concerns workers' personal interests, and workers lack sufficient understanding of the importance of the reform and psychological preparation for the likely temporary difficulties caused by reform, the authorities have issued instructions on stopping mentioning the subject of smashing the three irons for the time being, so as to avoid provoking workers and causing fear among people.

According to another report, even Zhu Rongji, who is the most resolute about smashing the three irons, also feels this issue is too sensitive and difficult, and stopped touching upon the subject for a time.

Nevertheless, smashing the three irons is an avoidable step for the reform of the mainland's state enterprises. With the acceleration of the movement of state enterprises toward the market after the CPC's issuance of the slogan of "socialist market economy," more and more state enterprise employees will unavoidably face the threat of unemployment because of market competition.

### More State Enterprise Employees To Face Unemployment

This year, reform of the state enterprises' operating mechanisms will result in a large number of state enterprises being declared bankrupt, merged and reorganized. In the first six months of this year, 66 enterprises, 15 of which are state enterprises, have filed for bankruptcy. According to a recent report, after leasing a Sichuan state enterprise with 1,360 employees, a Hong Kong businessman indicated that only 85 percent of the employees would be retained. This means that 300 employees of that plant would lose their jobs. It is reported that among those to be laid off would also be some state cadre. These people would be forced to seek other employment, and thus feel very strongly against such a change.

The Minister of Labor Ruan Chongwu said in early August that the CPC will not give up on labor reform, and will continue the effort to smash the three irons. It is reported that the coal sector alone plans to eliminate one-third of its jobs this year, that is, one million jobs.

### A Huge Force of Jobless People To Emerge This Year

The mainland is expected to see a huge force of jobless industrial workers. If this force of jobless workers cannot be absorbed quickly by the briskly developing economy, there could be turmoil, which would even devour the results of reform. However, how do we handle such a serious problem of unemployment? The CPC authorities and the advisers have no real experience at all except for some ideas that they themselves feel to be based largely on their own thinking.

According to mainland economists, in labor reform, the CPC is walking a tight rope between accelerating economic development and keeping social stability. Nobody can be sure whether that will be safe passage through this juncture. They are now watching nervously the development of the situation.

## AGRICULTURE

### Increasing Burdens of Peasants Examined

93CE0009A Beijing ZHONGGUO TONGJI XINXI BAO in Chinese 10 Sep 92 p 1

[Article by Tang Ping]

[Text] Towards the end of the 1980's, the rural economy entered a stage of rapid development, and the increase in the amount of required appropriations and appropriation categories also increased the burdens of many rural residents. Peasants began demanding that these burdens be reduced. To maintain and arouse peasant enthusiasm for production, and reduce peasant burdens the State Council issued document No 12 (1990): "Notice on Practical Measures To Reduce Peasant Burdens." The notice clearly defined required appropriation categories and the items covered by these categories. However, a random survey of almost 70,000 peasant households conducted by a national agricultural fact finding team this past year revealed that this issue of undue peasant burden has not been effectively resolved. In some cases the problem has actually worsened.

1. The total amount of costs peasants are bearing is increasing at a rapid rate, and account for an increasing percentage of annual net income. Since 1988, the net per capita income of peasants has increased only marginally, and the rate of increase has also been slow. But the total amount of peasant tax burden and retained earnings has increased considerably. The rate of increase has also been quite rapid. During the years 1988-1991, per capita net income among the nation's peasants increased by 19.4 percent, or an annual average increase of 6.1 percent. During the same period, the total amount of per capita tax burden and retained earnings went up from 25.9 yuan to 42.7 yuan, an increase of 64.8 percent, or an annual average increase of 18.1 percent per annum. The rate of increase for peasant tax burdens and retained earnings was 12 percentage points more than the rate of increase for net per capita income. As each year passes, the amount of peasant tax burdens and retained earnings accounts for an increasing percentage of annual net income. In 1988 the percentage was only 4.8 percent; in 1989 it was 5.4 percent; and in 1990 it was 5.6 percent. By 1991, it was 6 percent. The number of provinces in which peasants are now bearing more costs has also increased from 10 in 1988 to 14 in 1991. If taxes paid to the authorities are excluded, there were still nine provinces in 1991 where peasants had to bear the burden of more costs, two provinces more than in 1988.

2. In major agricultural provinces, peasants bear more costs, and in grain-producing provinces, the problem is even more pronounced. In 1991, there were 14 provinces where the total amount of per capita peasant tax burdens and retained earnings surpassed the legally stipulated standard of 5 percent. In several major agricultural provinces, peasants were forced to bear relatively high costs; in addition, costs in these provinces accounted for over 8 percent of annual net income. In terms of net per capita income among peasants, on a nationwide scale, Heilongjiang ranked 11th in 1991. Yet, the amount of per capita peasant tax burdens and retained earnings in Heilongjiang was the highest among all provinces, totaling 115.3 yuan. Heilongjiang's 15.7 percent ratio of incurred costs surpassed all other provinces (the percentage of annual net income that per capita peasant tax burdens and retained earnings accounts for during this period hereafter is the same). Nationally, Jilin ranked 10th when it came to net per capita income among peasants. Per capita tax burdens and retained earnings in Jilin, however, totaled 98.3 yuan. Jilin's 13.1 percent ratio of incurred costs was second only to Heilongjiang. In addition, the ratio of incurred costs in Xinjiang and Hubei was 11 percent and 10.3 percent respectively, placing these two provinces third and fourth behind Heilongjiang and Jilin. This nationwide ranking is rounded out by Shandong, Anhui, Liaoning and Henan; in these four major agricultural provinces, incurred costs accounted for 8 percent to 10 percent of annual net income. A survey conducted in Liaoning Province revealed that peasants living in the commodity grain base counties comprising the "great northern granary" of Tieling district paid 94 yuan more in retained earnings than peasants living in noncommodity grain base counties; yet, net per capita income in the Tieling district was 456 yuan lower than in other noncommodity grain base counties. However, for peasants in Liaoning, the imbalance and disparity of profits between these two industrial sectors has dampened their enthusiasm for planting crops.

3. Peasants are having difficulty coping with the various kinds of required appropriation categories. A survey conducted in Jiangxi showed that peasants incur the costs of 104 items in six required appropriation categories annually. They include the following: 23 coordinated charges, 17 service fees, 29 administrative fees, 15 penalty and confiscation fees, eight fund raising fees, and 11 labor and other fees. A similar survey conducted for Shanxi in 1991 by an agricultural fact finding team revealed that in the counties investigated peasants are subjected to 228 different social fees and charges, which involved 76 government departments. A total of 114 items, or 39.6 percent were unreasonable or illegal.

4. In certain areas of China, inappropriate fees, the imposition of unnecessary fines and unreasonable appropriation categories are still a problem. In these areas, peasants are incurring higher costs. In rural villages, there is no doubt that fund raising and the collecting of retained earnings have had a positive impact on the

collective economy and the implementation of public welfare services. However, inappropriate fees, unnecessary fines, and unreasonable appropriations continue to be a serious problem in certain areas. The fees and retained earnings collected from peasants in some areas have been squandered away on projects of dubious value. Public fund raising in our society has become increasingly fashionable. The effect of this social trend has been a desire for instant success and reward. This mentality is especially common among the leaders of certain rural districts. Because they have a strong desire to accomplish something tangible during their tenure in office, these leaders repeatedly collect funds from peasants for a variety of purposes. Unfortunately, this practice has placed an undue burden on peasants in these areas. Hunan statistics clearly illustrate that in Shaluo Village, Taoyuan County, Xiyu Township in 1991, peasants were required to pay a total of 10,454 yuan in fees, or 14.9 yuan per person for a variety of public construction projects such as a hospital, housing, schools, roads, a public garden and a public square. Peasants complained "they pay little in taxes, but a high amount of retained earnings and required appropriations create a bottomless abyss." The imposition of unnecessary fines is another serious problem in rural villages. In the past year, the number of ordinances regarding the imposition of penalties and fines has increased. In many rural districts, the practice of levying fines and penalties has gradually supplanted local laws, and management. In addition, fines and penalties have been used as an educational tool in some areas. In other words, the imposing of "fines and penalties" has become a major administrative practice in rural districts. Certain townships have even begun using this tactic as a means of balancing their administrative budgets. A survey conducted by the Shandong provincial government revealed that peasants in Shandong paid 19.29 yuan in per capita fines and penalties during 1991. This amount surpassed the amount collected for retained per capita public reserve funds and accounted for 2.84 percent of net per capita income.

5. Paying fees for services has not necessarily brought any benefits. In certain rural districts, retained earnings are collected from peasants for services which are never rendered. In other areas, peasants have vehemently protested against the unreasonable and unnecessary collection of retained earnings. Cadre in Yongjian Village, Xinjian County, Jiangxi report the following: To ensure that a veterinarian is present to deliver newly born pigs, the peasants in their village pay over 2,000 yuan annually in veterinarian fees. However, this service is practically useless since the veterinarian that is on call rarely shows up on such occasions. In addition, the veterinarian the peasants have employed charges extra for injections and medicine to treat sick pigs, which is unreasonable. Residents of Xinjian County Manhu Village report that they pay an annual movie fee to the local authorities; however, they consider themselves lucky if they get to see one movie a year. Peasants are paying for

services which they never receive. In their eyes, this problem simply adds to their economic and financial burdens.

Survey results indicate that, in recent years, peasants in rural China have incurred consistently high costs, mainly for the following reasons:

1. In certain rural districts, local authorities overestimated peasant income, which increased the economic and financial burdens of peasants. An analysis of peasant income reveals that the majority of the nation's peasants are not prospering. In 1991, the net per capita income of China's peasants was 708.6 yuan. Based on production, consumption, and related calculations, deducting money spent that year on daily expenses, and accumulated funds spent on improving living standards and expanded reproduction, the remaining amount per capita was only 50 yuan, and per household was less than 250 yuan. Furthermore, material goods comprised a considerable portion of this income figure. Hence, the remaining amount available for cash payments was even less than the figure for real per capita income.

2. Costs have been inequitably distributed, and peasant burdens are unequal. For peasant households with a per capita income of less than 200 yuan in 1991, taxes and retained earnings comprised 21.2 percent of their per capita income. For households with a per capita income of 200-500 yuan, it was 8.7 percent. For households with a per capita income of 500-1000 yuan, it was 6.3 percent. For households where the per capita income exceeded 1,000 yuan, it was only 4.2 percent. A difference of 17 percentage points separated the highest and lowest income groups. As income increased, costs and economic burden decreased.

3. An effective macroeconomic regulation and control system is lacking. Hence, in certain districts, economic burdens are inequitably distributed. In the past few years, several notices have been circulated by the party Central Committee, the State Council and local governments in various areas, which instruct local authorities to adopt measures to reduce the economic burden of the nation's peasants. Unfortunately, certain districts and government departments refuse to take radical steps to solve this problem. Intent on maintaining their interests, they continue to implement a variety of ineffective and superficial measures. In reality, the economic burden of peasants in rural districts has not been reduced. For instance, the amount of retained earnings collected are often earmarked for dubious projects. The decision as to how these funds are used is usually a subjective one that depends on the whim of the local authorities. Hence nonproductive related expenditures, such as food charges and stipends for basic level cadres, are often included in the required appropriations which peasants are asked to pay. A fact finding team from Jilin Province investigated 72 different instances in which peasants were subjected to undue economic burden. Covering 12 different counties, this survey showed that official documentation for 1991 stipulated quite clearly that the

peasants in these counties were subjected to a total of 26 official agricultural surcharges and fees. However, this investigation also revealed that these same peasants were required to pay 23 fees and surcharges not listed in the provincial government's official paperwork. Furthermore, 19 additional compulsory fees and surcharges were also discovered.

The issue of reducing excessive peasant burdens is no longer strictly an economic problem. It has become a political issue. If it is not adequately solved, the expansion of agricultural productivity could be adversely affected, and could even lead to social and political instability. Hence, in our view, the authorities involved in this issue should take the initiative and adopt feasible measures to comprehensively reduce peasant burdens, and maintain and arouse peasant enthusiasm for production.

**Agricultural Official Zhou Qingquan Interviewed**  
93CE0030B Beijing NONGMIN RIBAO in Chinese  
2 Sep 92 pp 1, 3

[Interview with Zhou Qingquan (0719 3237 3123) by unidentified reporter; place and date not given: "Zhou Qingquan, Responsible Person of the Office of State Leading Group for Comprehensive Agricultural Development, Answers Reporter's Questions on Comprehensive Development of Agriculture"]

[Text] [Reporter] Why does China want to engage in large-scale comprehensive agricultural development? What is the background for this move?

[Zhou] Large-scale comprehensive agricultural development is a strategic measure adopted by China in the field of agriculture. With the progress of our national economic construction and the improvement of the people's living standards, more and more farmland has been used for the country's capital construction and for building farmers' houses. To control such nonagricultural use of farmland and to make up for the losses so incurred, the State Council decided in 1987 to levy a tax on the use of farmland for nonagricultural purposes. At the same time, a land development and construction fund was established in accordance with the principle that "money obtained from land is to be used on land." In 1988, the fund was changed into an agricultural development fund, with money coming from six different sources, including the above-mentioned tax. Meanwhile, a State Leading Group for Comprehensive Agricultural Development was formed. The leading group set up an office to take charge of the comprehensive development and management of agricultural resources in a planned way so as to alleviate and solve the growing imbalance between the supply and demand of agricultural products in China.

[Reporter] How does comprehensive agricultural development differ from conventional agricultural development?

[Zhou] Comprehensive agricultural development is an important way to develop agricultural production in depth and in breadth. The difference between this program and conventional agriculture lies in "comprehensiveness." That is, it is aimed at comprehensive exploitation of all agricultural resources so as to achieve an all-round development of farming, forestry, animal husbandry, sideline production, and fisheries. To this end, comprehensive measures are applied, including engineering, biological, and technical measures. The input to this program is also comprehensive. This includes the comprehensive and coordinated input of funds, materials, labor, and resources of science and technology. The program requires comprehensive management; that is, comprehensive management of mountains, rivers, fields, forests, and roads. Finally, the purpose of this program is to gain comprehensive results—not only economic efficiency but also social benefits and ecological advantages.

[Reporter] What is the guiding thought for comprehensive agricultural development?

[Zhou] Comprehensive agricultural development is an act of our government to exploit agricultural resources with a specific goal and in a planned and systematic way. It follows a clear-cut guiding thought: Its goal is not only to increase the total output of agricultural products, but also to boost our agriculture's capacity for sustained development. The principal work is to transform medium- and low-yield fields, reclaim wasteland that can be used for farming, and exploit other agricultural resources as appropriate. As to the agricultural products to be developed, the projects so far drawn up by the state cover mainly grain, cotton, cooking oil, meat, and sugar. In setting up comprehensive development zones, it is necessary to have them rather closely located so that they may link up to form large development areas. Also, we should ensure that where there is a development zone, there are successful results. With regard to the funds required for this development program, the state will give necessary support, but the principal investors (for financial and labor input) are the masses of farmers.

[Reporter] What are the principles and policies for comprehensive agricultural development?

[Zhou] To succeed in comprehensive agricultural development, we must keep to the following principles: 1) The fittest-project principle. That is, we should give priority to the development of those places and projects that meet the conditions below: There are rich water and land resources, and enormous development potential. Less investment is required. Quick and good results can be expected. The project will give a high percentage of marketable products out of the total production. Local leadership pays attention to comprehensive agricultural development, and the masses are enthusiastic about it. 2) The principle of acting according to local conditions and proceeding from reality. We should do whatever is appropriate in exploiting resources. 3) The principle of doing easy work first and difficult jobs later. 4) The principle of attaching primary importance to efficiency.

5) The principle that the people undertake the projects while the state gives assistance. 6) The principle that the state provides gratuitous subsidies and loans on a 50-50 basis from the agricultural development fund. 7) The principle of open competition. 8) The principle of appropriately large-scale exploitation of new resources. To make a success of comprehensive agricultural development, the state has formulated a series of preferential policies: Whoever undertakes the project and makes investment will enjoy the benefits from the project. The right to use the facilities of the project will remain unchanged for a certain period and may be inherited. The additional grain produced as a result of the improvement of medium- and low-yield fields and the reclamation of wasteland will not be included in the state grain procurement contracts for five years. No agricultural tax will be imposed on newly reclaimed land for five years. Certain rewards and allowances will be given to scientists and technicians going to the countryside to do comprehensive agricultural development work. Under specific circumstances, a low interest rate will be applied to special loans for comprehensive agricultural development. Priority will be given to supplying materials and capital goods for comprehensive agricultural development. Investment in comprehensive agricultural development will not be included in the state plan for fixed asset investment.

[Reporter] What are the sources of funds for comprehensive agricultural development? What is the scale of investment at present? What is the scope of development?

[Zhou] In 1988, the State Council decided to set up the agricultural development fund with the tax revenue on nonagricultural use of farmland as the main financial source. The fund is intended for comprehensive exploitation of agricultural resources in line with the principle that "money obtained from land is to be used on land." Money put into this program now includes appropriations from the above-mentioned agricultural development fund at the central level, supplementary funds from local financial sources, funds raised by collectives and masses, funds raised by state-run farms, and special loans for comprehensive agricultural development. As for the scale of investment in this program, the annual amount of investment has exceeded 5 billion yuan since 1989. The investment in 1991 reached 6.5 billion yuan (excluding labor investment). In 1988, the scope of comprehensive agricultural development covered 11 areas in 11 provinces and autonomous regions on the Northeast Plain and Huang-Huai-Hai Plain. Now, the scope has expanded to include 54 areas in the country's 29 provinces, autonomous regions, and municipalities and the 11 cities that have independent economic decision-making power. Close to 1,000 counties and cities and more than 300 state-run crop-growing and livestock farms are involved in this program. Over the past few years, investment in comprehensive agricultural development has continued to increase, its scope has grown larger and larger, and the results have become better and

better. Through our step-by-step efforts, we have found a new path for our country's agricultural development.

[Reporter] What achievements have been made in comprehensive agricultural development over the past four years?

[Zhou] It has been only four years since 1988 when the state started this large-scale comprehensive agricultural development program, but remarkable results have been achieved. As of December 1991, 82 million mu of medium- and low-yield fields had been transformed, and 11.47 million mu of wasteland suitable for farming had been reclaimed. Meanwhile, many farmland irrigation facilities had been built, a lot of farm machines and food-processing equipment purchased, and a large number of farmer-technicians trained. Through four years of development efforts, the total grain production capacity in the comprehensive development zones has increased by 13.27 billion kg and the oilseed production capacity by 457.38 million kg. The program has improved the agricultural production conditions of the comprehensive development zones, raised to a remarkable extent their ability to resist the effects of disasters, and boosted their capacity for sustained agricultural development. They have taken on a new look as a result of comprehensive management of mountains, rivers, fields, forests, and roads. Garden-like villages have appeared in many localities with neatly divided square fields, rows of trees, networks of canals, convenient roads, plus such facilities as bridges, culverts, and sluices. These villages are playing an exemplary role in agricultural development. What is more, the ecological environment in the comprehensive development zones has been greatly improved. Since the output of agricultural products and hence the income of farmers have increased as a result of comprehensive agricultural development, many farmers in the comprehensive development zones have begun to lead a relatively comfortable life.

[Reporter] What are the prospects of comprehensive agricultural development? What will be its effect on China's agricultural development?

[Zhou] Comprehensive agricultural development has great potential in terms of the depth and the breadth of development. Insofar as in-depth development is concerned, China now has about 1.5 billion mu of medium- and low-yield land. If the yield per mu is increased by an average of 200 jin after the land has been improved, an additional 200 billion jin will be produced [figures as published]. As for long range development, China has 500 million mu of wasteland that may be turned into farmland. Plus, there are large tracts of shoals, water-covered areas, potential forestland, steppes, and grass-covered mountains and slopes. There are very good prospects for the exploitation of these resources. Comprehensive agricultural development is of vital significance to the fulfillment of China's production goal for the year 2000. It is estimated that, from 1988 to 2000, the comprehensive agricultural development program

will boost our grain production capacity by 80-100 billion jin. The program will promote the development of the rural economy as a whole and provide a favorable condition for China to achieve its objectives of moderate affluence and modernized agriculture.

[Reporter] What will be the next step for comprehensive development of agriculture in depth and in breadth?

[Zhou] In the next step, our efforts for comprehensive agricultural development will follow the track of higher output, better quality, and greater efficiency. This is a must in modernizing China's agriculture. As a matter of fact, our comprehensive agricultural development program has proceeded along this guideline since its very beginning.

As for the work from now on, first, we should continue our persistent efforts to transform medium- and low-yield fields, reclaim the wasteland that is suitable for farming, and exploit all agricultural resources. Second, we should go all out to develop and popularize good crop strains and new technology. Third, we should raise as much as possible the multiple cropping index in comprehensive agricultural development zones. Fourth, we should try to achieve an all-round development of farming, forestry, animal husbandry, sideline production, and fisheries with emphasis on grain, cotton, cooking oil, meat, and sugar production. Fifth, we should embark step by step on the road of combining crop growing and animal husbandry with processing work, trade and industry with agriculture, agro-science development with education, and domestic commerce with foreign trade. Sixth, we should continue to give priority to developing those projects that require less investment but give quicker and better results.

To sum up, the comprehensive agricultural development program should be carried out in greater depth and breadth. It should play a leading role in achieving higher output, better quality, and greater efficiency.

Over-production of grain is merely a problem concerning the agricultural structure. Also, it is a problem that appears only in certain regions and in specific periods. Agriculture is founded on crop growing, which in turn, is founded on grain production. If the state does not pay attention to grain production, improvement of our agricultural production conditions, and transformation of medium- and low-yield fields when drawing up comprehensive agricultural development projects, our agriculture will have no firm foundation, not to mention higher output, better quality, and greater efficiency. So we are using the agricultural development fund to support farmers in transforming their medium- and low-yield fields and increasing grain, cotton, and cooking oil production. We have also formulated some preferential policies in this regard.

[Reporter] In particular, what tasks should we grasp in developing comprehensive agriculture in the future?

[Zhou] First, more efforts should be devoted to publicizing and reporting comprehensive agricultural development, which is an undertaking in the interests of the country and the people and benefiting our future generations. We should call on the entire society to pay attention and give support to this undertaking. Second, we should let the comprehensive agricultural development program play a leading role in achieving higher output, better quality, and greater efficiency. Third, we should raise more funds and open more financial sources to further this program. Fourth, we should insist on a high starting point, high standard, high quality, and high efficiency so as to further raise the level of comprehensive agricultural development. Now, some comprehensive agricultural development zones are determined to make every effort to meet "eight targets"; namely, garden-like farmland, mechanized farming, zoning of crop cultivation, use of fine seed strains, modernized production techniques, systematically categorized services, large-scale operations, and scientific management. Fifth, we should continue to improve management of the comprehensive agricultural development program. It is necessary to have a clear understanding of our exploitable resources and formulate plans for medium- and long-range development. Good preparatory work, including investigations and studies, should be done before a project is drawn up. Step-by-step efforts should be made to standardize, clearly define, and institutionalize all tasks associated with comprehensive agricultural development. After a project has been completed, it should be well managed. Sixth, it is necessary to establish and improve the management organizations and workforce so as to better lead the work of comprehensive agricultural development.

#### **Expansion of Rural Cooperation Foundations Urged**

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[Article by Chen Jiyuan (7115 0679 0337) and Hu Bin (5170 2430) of the Rural Development Research Institute of the Chinese Academy of Social Sciences: "On Profound Significance of Development of Rural Cooperation Foundations"]

[Text] Through seven or eight years of development, rural cooperation foundations, an organization born in the course of China's rural economic reform, have taken initial shape and have become a component of the rural financial system of the country that cannot be ignored. Statistics compiled by departments concerned reveal that, as of the end of 1991, more than 20,000 townships and 120,000 villages in China established rural cooperation foundations, and funds surpassed 10 billion yuan. It is by no means accidental that such splendid results have been achieved in a short span of a few years. The rural cooperation foundation may be regarded as an inevitable product of China's market-oriented rural reform during the 1980's. It is another great creation by

the Chinese farmers to meet the needs of development of the rural commodity economy.

#### **I. Basic Background for the Establishment and Development of Rural Cooperation Foundations**

##### **A. Initial motive**

With the popularization in the countryside of the household contract responsibility system linking remuneration to output since the beginning of the rural reform, the people's commune system, characterized by "three-level ownership with the ownership of the production team as the basic form," was dismantled, but the accumulated collective funds left over from the "communization" years did not vanish. This large sum of money created a series of new problems: First, in the disposition of collective property, instances of carving up, encroachment, stealing, destruction, and even looting to varying degrees of seriousness occurred in a number of localities. It is estimated that the property previously distributed to farmer households across the country generally devaluated by 40 percent (mainly due to the low pricing method applied), and in most cases the devaluation was abnormal. A sizable part of the compensation money for the property distributed to farmer households and many other overdue accounts owed by individual commune members and outside units could not be collected. Second, collective funds were embezzled, misused, and squandered by some rural grassroots cadres and commune members. According to incomplete statistics covering 26 provinces, autonomous regions, and municipalities in the wake of the 1987 audit, nearly 300,000 principal village and commune cadres were found to have embezzled or stolen collective property, and the amount of the embezzled and misused property reached 1.17 billion yuan. Third, in some localities, the disorderly management and improper use of collective funds caused a considerable dissatisfaction among farmers, who often refused to make payments as required by the contracts or pay their dues to the collective reserves as an expression of resentment. Fourth, management of collective financial affairs was beset with the following longstanding problems: "After chaos was cleared up, things became messy again." "Chaos recurred despite efforts to eliminate them." "While old accounts were collected, new accounts receivable came up." Because of this, lots of collective funds were lost, money was scattered and could not be put to proper use, the turnover of funds was slow, and so forth.

Confronted with the above new problems in the course of rural reform, some localities, after straightening out their collective financial matters, explored the management method of having the village oversee the collective funds of work groups and the township oversee the collective funds of villages. This method produced pretty good results in correcting the problems of embezzlement, misuse, and squander of collective funds and in liquidating outstanding debts and credits. After that, these localities tried out a new method of using collective funds so as to "turn dead money into living money."

They divided the collective funds into shares and distributed the shares to various households. The shares were used to form a cooperation foundation for conducting financing activities within the village. The households own their shares, but cannot withdraw them. At the end of the year, the households receive dividends based on their shares. Through the establishment of cooperation foundations coupled with the program of changing debts into loans, many localities have been able to retrieve the money that outside units and individuals owed them. Now, cooperation foundations are welcomed by farmers and have received attention and support from local governments at all levels. Jiangsu, Sichuan, Shandong, Guangdong, Zhejiang, Liaoning, and Hubei have combined the work of forming rural cooperation foundations—a task aimed at successful management and flexible use of collective funds and collectively raised money—with the efforts to set up agricultural development funds and improve the output-related contract responsibility system, and have taken this as an important measure to develop agricultural production. As a result, rural cooperation foundations have grown quickly in all parts of these provinces.

The establishment of rural cooperation foundations has yielded fairly effective results in solving the "longstanding, big, and difficult" problem of disorderly management and improper use of rural collective funds, thus consolidating and strengthening the collective economy. The villages where cooperation foundations have been established can now put the former accumulated collective funds and their new reserve funds under centralized management. They have instituted an interest-paying system to replace the previous practice where people could use the collective funds without charge. While in the past administrative measures were used to make fund allocations, now funds are provided to users in the form of loans in the same way as practiced in the finance business. Specialized departments have been formed, personnel recruited, and regulations formulated to meet the new requirements. This has served pretty well the purpose of eliminating embezzlement, misuse, and seizure of collective property and changed by and large the disorderly state of collective finances in the countryside. Based on the above, our basic conclusion is that the original goal, or the initial motive, of forming the rural cooperation foundation to achieve successful management and flexible use of the accumulated collective funds has been fulfilled in recent years.

#### B. Actual requirements

The development of the rural cooperation foundation is an objective requirement of China's rural reform and rural economic development. The institution of the household contract responsibility system linking remuneration to output has remolded the micro-economic foundation and the operational incentive mechanism of China's rural economy. Chinese farmers are no longer passive laborers who must be "pushed to work" as they were under the previous people's commune system. Instead, they are commodity producers who have the

right to make their own work plans. They can fully display their enthusiasm and initiative in promoting productive operations. With the continuing of market-oriented rural reform, large numbers of new operational units, such as specialized households, specialized work groups, and specialized villages, have emerged one after another, giving a powerful impetus to the continuing of the socialized division of labor and the commercialization of products in the countryside. Meanwhile, because of the change in the state's macro fund-distribution pattern, the government's principal investment in rural areas is no longer in the form of fund allocations but is carried out through financing activities. On the other hand, different rural operational units may want to use the credit loans for different investment projects. Their roles in developing the rural commodity economy and their abilities to sustain risks may also be different. All these have brought about an increasingly pressing need for diversified financing service in the countryside.

As main credit organizations in rural China, the Agricultural Bank and credit cooperatives have long been required to fulfill both the policy-enforcement functions and operational functions. Because of the tight state budget and the rigid rules of the financial responsibility system, it is impractical to give them a subsidy or to reduce or exempt their taxes as a way to compensate the losses they suffer in carrying out the policy-enforcement functions. Under such circumstances and with the gradual progress in reforming financial institutions toward enterprise-type operations, it is inevitable for financial institutions to become profit-oriented. Actually, the Agricultural Bank and credit cooperatives are inclined more and more to follow the principle of comparing profits and averting risks in planning their operations. They have gradually reduced and even steered clear of such high-cost, low-profit, and high-risk business as small-amount agricultural loans issued to farmer households, village-community economic cooperation organizations, and small community enterprises. This has resulted in a relative "vacuum" in the stratum of medium and small agricultural loans in the countryside.

Failure to solve the above problem has, on the one hand, led to a serious shortage of investment in China's agriculture and rural commodity production. On the other hand, it has provided a hotbed for the growth of unruly usury among rural people. The rapidly developing rural economy will no doubt need a relatively sound rural financial system to facilitate the change of financial work from controlling the use of funds to promoting the use of funds. A more impending realistic need is that a cooperative financial organization should be established in the countryside as a way to restrict usury and fill the financing vacuum caused by the drawback of our rural financial structure. As can be seen, the rapid development in recent years of the cooperation foundations—whose initial aim is to better manage and use the accumulated rural collective funds—is by no means accidental. It meets an objective requirement of China's

rural economic development and is an inevitable outcome of the market-oriented rural reform.

## II. Profound Significance of Developing Rural Cooperation Foundations

With the unceasing development and growth of rural cooperation foundations, their influence on China's rural economy is becoming more and more important.

### A. Cooperation foundations help build and improve China's rural financial system

For a long time, the Agricultural Bank and credit cooperatives have played an absolutely dominant role in China's rural financial system. The other financial activities are made up by the scattered, small-amount credit loans arranged by farmer households themselves. Because of this, the composition of our rural financial system is fairly simple. Due to historical and structural reasons, however, today's credit cooperatives, in reality, no longer possess the original nature of cooperatives. To a certain extent, they have become the Agricultural Bank's agencies at the grassroots level.

To meet the needs of the rural economic restructuring and the development of the rural commodity economy, China has conducted reform of rural credit cooperatives since 1984. Yet because one-third of the funds of the Agricultural Bank come from deposits made by credit cooperatives and there is a tendency of integration between the bank and credit cooperatives, it is hard to make any substantial progress in reforming credit cooperatives until a full-scale restructuring of the financial system is carried out across the country.

In the absence of other financial institutions to supplement the credit cooperatives, farmer households would find it difficult to get the numerous small-amount, short-term loans to meet their production requirements.

In view of the above, the establishment and development of cooperation foundations are, without doubt, of vital importance to the improvement of China's rural financial system. Cooperation foundations are cooperative financial organizations established by village collective economic organizations and their members in accordance with the principle of voluntary participation, mutual benefit, and paying interest on the use of funds while keeping the original fund ownership and rights of benefits intact. Their main task is to manage the collective funds and provide financial service. Currently, the vast majority of rural cooperation foundations in China rely on tapping potential within their localities as the main financial source. In general, there are the following specific channels: 1. Fixed shares, including the shares converted from the accumulated funds of former production teams and distributed to farmer households (this is the basic source of funds for cooperation foundations at present) as well as new shares bought by farmer households in the village. 2. Long-term and current funds, including (a) various kinds of money held in

custody for others, such as the village economic cooperative's income from contract work and other monetary receipts, charges paid by farmer households on contracted land, and the "agricultural support" and "agricultural construction" funds raised by village and town enterprises; (b) aid funds from the departments concerned; (c) funds accumulated by the cooperation foundations themselves; and (d) farmers' investment in the cooperation foundations.

Because of the unique nature and specific financial sources of rural cooperation foundations, the principle and scope of their financing service differ from those of the Agricultural Bank and credit cooperatives. Cooperation foundations, which are joint-stock cooperative financial organizations formed by farmers themselves, can act more flexibly and independently in garnering and using funds. In issuing loans, they emphasize the guideline that "money from farmers should be used to benefit farmers and the goal is not to make profit but to serve farmers." Specifically, the principle followed is "small amount, short term, high efficiency, interest-bearing, and timely repayment." In the main, loans are extended to agricultural development projects with a quick money-turnover rate and high economic returns as well as those farming and animal-husbandry undertakings that are in urgent need of capital. Recipients of the loans include economic cooperation organizations at various levels and farmer households (members of the foundation have priority in getting the loans).

The rapid development of cooperation foundations has effectively eased the shortage of funds in the countryside and satisfied farmer households' needs for small-amount, short-term loans for their productive operations. Thus, cooperation foundations have served the purpose of supplementing the Agricultural Bank and credit cooperatives. In particular, they have provided improvised households with low-interest or interest-free loans to enable them to engage in production and to meet their living expense. The procedure for getting such loans are simple. This has greatly facilitated production and helped solve the subsistence problem of these people. To sum up, with the appearance of rural cooperation foundations, a new financial structure has begun to take shape in rural China—a relatively sound multi-organization, multiform, and multichanneled structure with the Agricultural Bank as the head, credit cooperatives as the mainstay, rural cooperation foundations as props, and people-to-people credit loans as supplemental components.

Another advantage is that the appearance of rural cooperation foundations has reduced the high interest rate on lending and borrowing among the people. For instance, in recent years the monthly interest rate on such lending and borrowing once rose to the region of 5 percent, according to an investigation in Heilongjiang Province. In some places of the province, the rate was as high as 10 percent. After the establishment of rural cooperation foundations, the interest rate dropped remarkably. A recent survey covering five counties of that province

shows that the rate has generally dropped by about 3 percentage points. In addition, the establishment of rural cooperation foundations has spurred the reform of credit cooperatives. An example is that since share societies (an extension of the cooperation foundation) were established in 1984 in Huangzhou City, Hubei Province, the credit cooperatives there, faced with the new competitors, have striven hard to improve their service and revamp their internal management. These examples have fully borne out the positive effects of the establishment and development of cooperation foundations on the perfection of the rural financial system.

#### B. Cooperation foundations are conducive to boosting agricultural investment

Since the start of the rural reform, China's total investment in agriculture has not increased appreciably. Occasionally, there have been fluctuations and even declines in such investment. How to increase the total investment in agriculture is a subject involving many issues, and we will not discuss it in detail here. However, we believe that the establishment and development of rural cooperation foundations are, no doubt, of prime importance to boosting collective agricultural investment by farmer households.

1) Development of cooperation foundations makes it possible to manage properly and use flexibly the collective funds, increase the collective accumulation, and enhance the collective capacity to support agriculture. With the establishment of cooperation foundations, collective property has been rechecked and re-registered. Accordingly, the collective interests can be effectively protected. The accumulated collective funds can now be used to the best advantage as a result of these changes: change from scattered management to centralized management, change from longtime idle funds to using them for short-term purposes with a quick turnover rate, and change from allowing free-of-charge use of the funds to requiring interest payment for using the funds. According to investigation, rural cooperation foundations sprang up rather extensively in Sichuan during the three years from 1987 to 1990. During this period, the village public reserve funds in the whole province increased 50.2 percent, and the monetary part of the funds increased 83.3 percent. Also, it is estimated that for every 100 yuan lent to the farmer household by the cooperation foundation, the farmer household can use the money to earn 14.2 yuan, the collective can get a benefit of 9.8 yuan, and the government can have a tax revenue of 5.5 yuan. The establishment of cooperation foundations has greatly added to the development of agricultural production.

2) While managing properly and using flexibly the accumulated collective funds, cooperation foundations have vigorously encouraged farmers to buy shares so as to absorb all sorts of idle money in rural areas and increase the farmers' input to agriculture. In general, cooperation foundations have a preferential interest rate for loans

extended to projects of crop production, animal husbandry, and agricultural infrastructural construction. They also give priority to issuing such loans. For example, in 1990 alone, rural cooperation foundations in Qianan County, Hebei Province, put into agriculture a total of 103.89 million yuan. This included 9.07 million yuan for investment in agricultural capital construction; 17.82 million yuan for loans to farmer households for buying crop seeds, chemical fertilizers, and other production materials; and 42 million yuan lent to farmer households for developing farming and sideline undertakings, including crop growing, animal husbandry, processing of farm produce, and transportation service.

#### III. Make the Best Use of the Situation To Improve Rural Cooperation Foundations

To develop and expand cooperation foundations, we have to make efforts to perfect them as in the case of other new things. It is quite necessary to take advantage of the current situation to do this. In our opinion, attention should be paid to the following:

A. **Organization and democratic supervision** Cooperation foundations in all localities should institute a membership-meeting or congress system and make that system perfect. The membership meeting or congress should discuss and decide on such matters as the formation of administrative and internal supervisory organs as well as the assignment of personnel for these organs. Every organization and individual must fully respect the foundation's rights of decision-making and democratic management. No organization or individual is allowed to encroach upon the foundation's property, to requisition without compensation or use forcibly the funds it administers, or to compel it to act as guarantor for any unit or individual to borrow money. Now, instances against these principles have appeared in some localities. These instances should be corrected as soon as possible so as to ensure that cooperation foundations can act fairly independently in developing their work. In the meantime, cooperation foundations should gradually form and make perfect an effective supervisory mechanism. An audit system should also be established so that the accounts and financial activities of cooperation foundations can be properly examined. In addition, it is imperative to define the responsibilities of the board of supervisors and give full play to its supervisory role.

B. **Control over the use of funds** In issuing loans, cooperation foundations should reasonably choose the recipients and projects in accordance with the needs of production and local economic development programs. They should adhere to the principle of short term and small amount and give priority to solving the shortage of working funds for farmer households and for various agricultural production projects. In addition, they should establish and improve the loan-application and approval procedure, the "three checkups" system, and the guaranteed, secured, and contracted loan system. Every effort should be made to avoid losses caused by insufficient use and idle funds.

**C. Distribution of revenue** The rural cooperation foundation is a joint-stock financial cooperation organization. In the distribution of revenue, they should keep to the principle of "making overall planning, taking all factors into consideration, retaining less, and distributing more." The specific proportions of revenue to be distributed in various localities may be determined according to local conditions and through democratic consultation. For example, Sichuan Province has set the following rule: In general, salaries, bonuses, and other operating expenses of cooperation foundations should be kept in the region of 15 percent of their distributable income, and in no case should it surpass 20 percent. Most of the net income, that is, the income after deduction of various disbursements and operating expenses, should be distributed to shareholders as dividend. Appropriate proportions of the net income should be retained as contingent funds against risks and as public reserves. A small part should go to the welfare fund.

**D. Selection of new areas of operations** The vast majority of cooperation foundations in China do not accept savings deposits. Their operations are limited to financing within their respective localities. However, cooperation foundations in some localities have now broken through this confine of operations. For example, since the Rural Cooperation Foundation of Huangzhou City, Hubei Province was established in 1984, the provincial government has selected it as a test unit for rural financial reform and allowed it to do savings deposit business. According to statistics complied as of October 1991, the savings deposits held by this cooperation foundation had surpassed 27 million yuan. With regard to those cooperation foundations that have already opened savings deposit business, the authorities concerned should draw up unified policies and regulations as soon as possible and assist them in improving themselves to meet the standard qualifications for financial institutions. On the other hand, cooperation foundations should register with the state administrative department governing financial institutions, obtain its approval, and apply for operating licenses. They should, on their own initiative, abide by the state financial laws, regulations, and policies, and subject themselves to the supervision and guidance by the above-mentioned department.

#### Zhejiang To Fully Decontrol Grain Prices in 1993

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[Report by JINGJI RIBAO reporter Huang Quanbin (7806 0356 2430) and NONGMIN RIBAO reporter Liu Xiaojie (0491 1420 2638): "Zhejiang Fully Decontrols Grain Purchase, Sales, Prices—An Essential Step Toward Market-Oriented Agriculture"]

[Text] According to information obtained from a rural work conference held by Zhejiang Province on 10 September, the province will fully decontrol the purchase and sales of grain and liberalize grain prices, beginning 1 January 1993. This is one of the major measures adopted

by the province in an effort to further emancipate the mind, gear up the reform and opening-up drive, and put agriculture on the track of market-oriented development.

Zhejiang's general guiding principle for the reform of the grain purchase and sales system is: planned guidance, liberalization of prices, strengthening of regulation and control, and invigoration of operations. Planned guidance means that the original system for state grain procurement will be changed into a guidance-plan system, except for the grain collected by the state as agricultural tax. The province's grain procurement plan will be formulated according to market demands in line with the principle of basing purchase on sales. Based on this plan, grain enterprises will sign grain procurement contracts with farming households or rural economic cooperatives according to the principle of voluntariness, mutual benefit, and agreement through consultation. As to the sales of grain, the unified sales system will be abolished, and no grain coupons will be used. Liberalization of prices means that the government-fixed prices for the procurement, unified sales, and allocation of grain will no longer exist. Control imposed on the grain purchase and sales prices, including the prices of fodder and grain products, will be totally lifted. When the grain price on the market has big ups and downs, the government may set a protective floor purchase price and a ceiling sales price so as to protect the interests of grain producers and consumers. Strengthening of regulation and control means that the state must have a certain quantity of grain under its control as contingent grain for coping with disasters, regulating supply and demand, controlling excessive price rise, and stabilizing the market. A grain reserve system and an emergency fund against risks will be established at the provincial, city, and county levels. To strengthen macro regulation and control of the grain trade in society, grain bureaus at all levels will reform their organization, improve their functions, and establish a sharp, capable, and efficient management system. Invigoration of operations means that greater efforts will be made to improve the grain market. A sound market mechanism and system will be established and developed. Efforts will be made to advocate the work method of pooling the strength of the state, collectives, and individuals. Diversified channels will be established to facilitate the transportation of grain. Those who meet the qualifications set by the state and have registered with the industrial and commercial administrative authorities may engage in grain and cooking oil business, either wholesale or retail.

According to information released at the meeting, the grain purchase and sales prices in Zhejiang Province are more or less the same as a result of several small-scale price reforms carried out in the past few years. Recently, with the steady increase in grain production, abundant grain supply, and the people's ever-growing income, the province is in an excellent situation marked by political and economic stability and a mood of calm and contentment among its people. The provincial party committee

and government hold that they should seize the current opportunity and make a resolute policy decision to fully decontrol the grain purchase and sales prices so as to gradually realize the goal of commercialization of grain and put the grain work under market-oriented management.

Xu Xingguan, Zhejiang's vice governor in charge of day-to-day work, said: Decontrolling the grain purchase and sales prices is by no means relaxing attention to grain production. Still less does it mean we want to shake off the burden of grain work and take a laissez-faire attitude toward it. Investment by the state in agriculture, especially grain production, should not be reduced but should be increased each year. It is necessary to protect the farmers' enthusiasm for growing grain crops, and in particular, assist main grain-producing areas in promoting grain production and developing a commodity economy. To meet the grain-decontrol requirements, all levels of government should change their functions step by step, so that the pure administrative function will be turned to a large degree into a service function. Direct management and administrative interference should be minimized in dealing with agricultural production. To

adjust production and manage the economy, we should rely mainly on economic and legal measures and use economic levers.

Comrade Xu Xingguan went on to stress: To put agriculture on the track of market-oriented development, the masses of farmers, first of all, have to adapt themselves to this change. Such adaptation is also necessary for the leadership at all levels and for the departments concerned. For this reason, we must make a radical change in our guiding ideology for agricultural development. We should break with the concept and practice of the planned economy, foster a new market-oriented idea, and devote ourselves to building a new socialist market economic system. We should break with the concept and practice of small-scale agriculture and grain production and foster a new idea that aims at effectively increasing our food supply. We should break with the concept and practice of overstressing high output and foster a new idea that puts emphasis on efficiency. We should break with the traditional agricultural concept and practice and foster a new idea that makes science and technology the backbone of agriculture. Finally, we should break with the concept and practice of stagnation and narrow-minded seclusion and foster a new idea of opening to all sides and aiming at all-round development.

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